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TITLE PAGE

'The difficulties of accessing bank finance and business support by
Black African and Caribbean Entrepreneurs in London'

DECLARATION OF ORIGINALITY

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Date

Names of Supervisors: (1) Prof. David North - Director of Studies

(2) Dr. Ignatius Ekanem -Second Supervisor

ABSTRACT

This research seeks to identify and evaluate the influences of the '*personal characteristics*' and '*attitudinal behaviour*' of Black African and Caribbean Entrepreneurs (BACEs) in London when seeking finance and business support from banks and other external agencies. The reason for this choice of research was to try and understand whether some of the personal characteristics of BACEs had an influence on the barriers they often reported when accessing business finance from formal sources in London, notably High Street banks.

In particular, this research examines the influences of different aspects of *human and social capital, cultural factors* and *generational differences* on the *attitudes* of BACEs when seeking external business finance. The empirical research coincided with the onset of the '*credit crunch*' and the tightening of credit rationing by the banks, so that BACE experiences of accessing finance need to be considered in this context.

The use of *mixed data* sources including both quantitative and qualitative data adds a new and original dimension to this study. Thirty (30) purposely selected BACEs, five (5) main High Street banks, six (6) enterprise agencies and one (1) public sector organisation were interviewed over a two and a half year period. The field work involved in-depth interviews to obtain information from the respondent BACE owner managers. The quantitative dimension involved analysis of the London Annual Business Survey (LABS) dataset to compare the experiences of BACEs in accessing finance with those of other ethnic businesses.

This study found that the '*attitudinal tendencies*' and behaviour of BACEs were closely related to their levels and types of *human capital* attainment. Results also suggested that the '*cultural orientation*' of BACEs and their concentration in certain communities described as '*ethnic enclaves*' were significant factors influencing their behaviour and attitudes when seeking finance and dealing with mainstream business support services. The views of some of the BACEs about discriminatory practices by banks can be largely attributed to their '*perceptions*' and '*self-imaging*' as little empirical evidence was found to support such claims.

The lack of data on BACEs is a problem which requires attention by policy-makers if the myths around perceptions are to be managed. Many of the challenges of BACEs reported in research are submerged within data relating to SMEs as a whole, thereby making it difficult to focus on the particular needs of BACEs. This research found that a small but significant number of interviewed BACEs considered themselves to be the subject of 'discrimination'. However, these attitudes could be largely attributed to various 'human capital' shortcomings. Some respondents may be also using the alleged discrimination to mask their own business failures.

The thesis makes recommendations for improved re-engagement between the three principal agents and areas for future research are highlighted in the concluding chapter. Some of the main recommendations are geared towards fostering a better understanding and relationships between BACEs and finance providers as well as the need to promote good practices. The need for developing a database for Black businesses is long overdue.

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LIST OF ABBREVIATIONS

BACE – Black African Caribbean Entrepreneur

CEEDR – Centre for Enterprise & Economic Development Research

BoE – Bank of England

SME – Small Medium Enterprise

EMB – Ethnic Minority Businesses

ONS – Office of National Statistics

BPE – Business Population Estimates

BBA – British Bankers Association

LDA – London Development Agency

BIS – Business Innovation & Skills

DBE – Discouraged Borrower Effect

OFT – Office of Fair Trading

BBV – Brent Business Venture

ACBS – African Caribbean Business Support

ELSBC – East London Small Development Agency

HBDA – Haringey Business Centre

PBC – Portebello Business Venture

CHAPTER 1: INTRODUCTION

1.0 Research Rationale

1.1 Background & Context

The difficulties for Black African Caribbean Enterprises (BACEs) in accessing bank finance and appropriate business support is the focus for this study. Several studies (Jones et al. 1994; B0E, 1999; Smallbone et al. 2003; Fraser, 2005; 2009) have reported that Ethnic Minority Businesses (EMBs), especially Black businesses (notably, African and Caribbean) face greater problems in accessing finance. Following on from the Bank of England study (1999), which found no evidence that banks were practicing ethnic discrimination, subsequent studies supported this notion to a large extent. However, there are several studies (many of which will be looked at in Chapter 2) which suggested that the issue of attitudes among EMBs is a significant concept and forms a major research theme for investigation.

This study sets out to explore some of the issues that may be attributed to the reasons why BACEs portray negative attitudes towards formal sources of finance. Previous studies apply 'econometric methods to dispel the 'mistaken' perceptions among BACEs, but this study approach the problem from a new perspective, applying predominantly 'qualitative' methods to investigate reasons why BACEs behave as such.

Certain attributes of the BACE owner manager such as their 'human capital', 'attitudinal behaviours' and the effects of these factors on judgement, interrelationships and the wider misinformation between them, the banks and the 'intermediaries' such as business support providers are areas of focus for this research. Three key players are looked at as the basis for investigations: the BACEs (owner managers) referred to as the 'demand side', the banks referred to as the 'supply side' and the intermediaries which include agencies providing business support. These are studied with a view to 'triangulate' their perspectives in order to try and explain the underlying reasons behind the reported difficulties allegedly faced by BACEs concerning access to finance.

There is increasing research focused on Small and Medium Enterprises (SMEs), but little on BACEs despite the growing interest about their potential impact on the UK economy. Official statistics are generally inconsistent and may be viewed as being unreliable, hence the difficulty in obtaining accurate data on Black businesses. The justification for this research points to the poor or insufficient understanding of the reasons why BACEs behave in certain ways leading to them holding views that can exacerbate their difficulties in accessing bank finance. Many of these attitudinal issues arise from their historical experiences in the labour market and their tendency to concentrate in 'ethnic enclaves' that can further marginalise their market and growth potential.

1.2 Trends and Statistics

Locating BACEs in the SME group is a difficult proposition partly due to some of the issues aforementioned. The 2011 national statistics (national statistics web page) on minority ethnic population trends provide a limited description of the specific BACEs in terms of population, economic activity etc. It is therefore difficult to make a more realistic analysis of how much information is available on BACEs. Some statutory authorities including Companies House do not record diversity data and the same applies to high street banks. In essence, there is little data that can give a reasonable estimate of the numbers and types of BACEs in England. All too frequently researchers lump the various EMB groups together making it difficult to understand the unique proportions of particular groups.

The subject of small businesses is vital to the UK economy and has stimulated considerable debate amongst academics, policy makers, practitioners and the finance sectors in general over the last three decades. Ethnic minorities account for eight per cent of the British population (Census of Population 2011) but in some parts of London it is reported that ethnic minorities account for more than fifty per cent of the local population. This geographical concentration has an impact on their economic contribution to the local economy.

Whilst there is no single database containing all private sector businesses in the UK, the main source for estimating the business population is via the Inter Departmental Business Register (IDBR), administered by the Office for National Statistics (ONS). The Business Population Estimates (BPE) data show that there were an estimated 4.9 million private sector businesses in the UK at the start of 2013, an increase of 102,000 over the previous (2012) year. However, the estimated increase is largely due to the inclusion of the 'zero' staff (sole trader) category that was omitted from the 2011 statistics. The private sector businesses employed an estimated 24.3 million people and had an estimated annual combined turnover of £3,300 billion.

Nwankwo et al. (2005) argue that the estimated annual turnover may be grossly underrepresented (this is based on the presumption that Black businesses are inadequately captured in the statistics). For example, in London, it was estimated that a more accurate combined turnover estimate in 2005 (all businesses) could have been in the range of about £12 billion. The Nwankwo et al. (2005) report suggested that owing to the possible flaws in the methodological problems in collating Black business data in the UK, coupled with inadequate census protocols for measuring the actual size of the Black business economy in UK, official statistics might have misjudged the scale of Black business contributions to the economy. They also suggested that the size of the 'informal' Black business economy (especially the self-employed) is huge and often escapes capture in official statistics. Contextually, 'informality' does not depict underground illicit activities but encompasses those enterprises where 'some or all their transactions are not declared to the state for tax collections and social security purposes' (Williams & Round, 2009)

Almost all (99.9%) of businesses recorded at the start of 2013 were small and medium enterprises (SMEs), but recent records, including the 2011 census have not accurately captured micro-businesses (1-9 employees) statistics. The SME data, including micro-businesses, are generally accurate but the various categories; particularly the BACEs are rarely presented and quite difficult to ascertain the true picture of its representation in the SME statistics. A careful

review of the BPE, 2013 statistics show that 99.9% of all businesses were small (1-49 employees) of which 0.6% were medium-sized (50 – 249 employees). The category of Black businesses being studied in this research, the BACEs fall in the micro businesses (1-9 employees) category which is included in the 1.2 million (or 24.7%) of the total EMB businesses at the start of 2013. The ‘no employee’ categories (i.e. those comprising sole proprietorships or only the self-employed owner-manager and/or employee directors) are about 75% (3.7 million of all businesses). For the purpose of this research, it is those BACEs which fall into the micro businesses (i.e. 1-9 employees) category which are the primary focus.

For clarity, there are three tiers from which BACE statistics and representations were traced. The small and medium-sized enterprise (SMEs) provides the broader reference point for assessing the significance and contributions of small businesses to the wider UK economy. This is then disaggregated into the various categories (specific groups that make up the SMEs). The BACEs is the subject of interest, which is represented within the micro businesses because of their heterogeneous characteristics which creates a gap in the official statistics that serves as focus for investigation in this research.

1.3 Defining BACEs

Black African Caribbean Enterprises are regarded as one component of the wider Ethnic Minority Businesses. There is a conceptual debate within the literature about the definition of what constitutes an ethnic minority business. BACEs, for the purpose of this research refers to the first, second (and to a lesser extent, the third) generations of Black Africans and Caribbean Enterprise business owner-managers. The focus for this research are BACEs which characterise ‘micro size businesses’ that have between 1 – 9 employees and usually have a niche in the local communities within which they operate.

The fundamental problem under investigation is the widely held view that BACEs face disproportionate barriers when it comes to accessing finance from formal sources, such as High Street banks. More than two decades ago, Ward and Reeves (1980) carried out what was the first systematic interview survey of the relationship between African-Caribbean entrepreneurs and their banks. One

of the most significant findings was a widespread *perception* of discrimination amongst the entrepreneurs themselves, with numerous aggrieved respondents claiming to have been rejected for business loans despite, in most cases, being able to offer the required capital and references.

As stated earlier, several studies have dispelled this notion as a misperception (Fraser, 2009), because econometric analysis indicates that ethnic differences in denial rates and interest rates can be explained by variations in non-ethnic risk factors such as missed loan repayment and overdraft excesses. Empirical interpretations therefore suggest that there is no ethnic discrimination in credit markets (Fraser, 2009). This thesis tries to find alternative explanatory factors (apart from the ethnic orientation) such as the 'attitudes' and 'human capital' of the owner manager to try and explain why they exhibit such behaviours, which presumably presents them with difficulties in accessing finance from formal sources. The author suggests that the barriers faced by BACEs are not significantly different to those faced by other small business owners, but believes there may be some alternative explanations and reasons for the perceptions reported, and this forms the basis for this research.

There has been extensive research on EMBs in recent years, but less on the BACEs in particular. Ram and Deakins (1995), some of the pioneering researchers in this field, confirmed that BACEs have a particularly low propensity to access bank finance at start-up. Instead, they rely mostly on personal savings, trade credit and internal sources of finance such as community loans and family contributions. Fraser's (2008) findings were similar to this and in fact suggested that there are longstanding concerns about access to finance amongst all types of small firms due to capital imperfections (Graham, 2004). An important reason for these imperfections is that finance providers may find it hard to assess creditworthiness of small firms due to information asymmetries and not racial bias per se.

Contributions to the economy by small businesses in general has been highlighted by many researchers: Ekanem (2005) made references to the importance of SMEs to the economy as a source of innovation (Ochieng and

Kalantaridis 2001; Anderson et al., 2001,) a source of employment (Keeble, 1990, Smallbone, 1994; Dale and Morgan, 2001) and as seed corn from which much larger companies can grow (Storey et al., 1987, ACOST 1990). The potentials of the majority of BACEs are still relatively little researched, but their role in the London economy has been documented. Clearly, economic policy is being formulated without sufficient understanding of the real problems faced by BACEs and the likely impact of the actions of their external environment upon them (Ekanem, 2005).

1.4 Research Context

A pilot study completed in November 2007, as part of the MSc Research Methods programme attempted to explore and separate 'perceptions' from 'reality' concerning the reported barriers of accessing business finance by Black African and Caribbean Entrepreneurs (BACEs) in London (Babayemi, 2007). The rationale was to evaluate the characteristic profiles, knowledge, and perceptions of BACEs concerning access to business finance. A *qualitative* approach was adopted, employing semi-structured in-depth interviews. This involved a small number of purposefully selected Black African and Caribbean business owners that were running their own business or planning to set up one. Their accessibility to business finance was the primary focus of this study. The pilot study provided a basis to uncover the extent to which the *perceptions* of both the 'demand' and 'supply' sides of business finance influenced access to finance from external sources.

The insights gained from the in-depth interviews suggested that *human capital* in terms of the *relevant qualifications and experiences* of BACE owner managers can be a key factor affecting their ability to access business finance from formal sources. Given the limited size of the sample covered in the pilot study, the influence of these human capital factors needed to be examined for a larger sample of BACEs. An extensive literature review was conducted and evidence presented in the review highlights the disproportionate (with reference to small firms with similar features apart from ethnicity) barriers faced by BACEs, accessing business finance. Comparison was made with other Ethnic Minority

Business owners and the control white groups with similar characteristics in terms of size (1 – 9 employees).

The principal purpose for conducting this research was to further explore and develop the themes that emerged from the pilot study conducted in 2007. The aims and objectives were set to identify and examine the underlining effects of the human capital of the BACE owner manager and to investigate if a 'knowledge gap' existed in relation to accessing external finance. Knowledge gap in this instance is a function of the grasp of the owner managers understanding of the financial market place, options and alternatives to business finance. The shortage of human capital amongst some of the BACE owner managers interviewed during the pilot study was noticeable and provides the basis to further investigate the concept.

This is supported by the notion that the shortfall of relevant qualifications, opportunities and knowledge, predisposes BACEs to form ethnic-based enclave-markets and this may be a major factor affecting their chances of success in accessing formal sources of business finance. Ethnic communities provide a range of business opportunities in ethnic-based enclave-markets. Since an enclave economy is bounded by the size of the community, there is a demographic constraint on the further development of BACEs. Given the limited depth of the enclave economy, BACEs need to develop strategies in order to deal with competitive pressures and market saturation by reaching mainstream or better rewarded markets.

The gaps in literature highlight the lack of evidence or direction for identifying the specific reasons to explain why BACEs face particular difficulties when seeking and accessing external finance. This emerging theme, therefore, set the scene for this research, to explore the interconnection between human capital and the knowledge gap as it relates to accessing sources of formal finance.

The timing of this research coincides with the onset of the credit crunch and economic downturn in 2007, leading to many SMEs experiencing increased difficulty in accessing external finance, particularly debt finance from banks (Fraser, 2009; Cowling et al., 2012) The credit crunch of late 2007 resulted in

increased 'credit rationing' i.e. a tightening of credit availability, making it more difficult for younger and microbusinesses in particular to access bank finance. Given the impact of these economic circumstances on the small business community, this research needed to set the issues of BACE access to finance within this historic context by also considering the adaptability of BACEs to the harsh market place during this period.

1.5 Research Focus

The justification for this study is to demonstrate how the human capital of BACEs may have some bearing on the success rate for accessing business finance from High Street banks. Research (CEEDR 2008; Fraser 2008; Law 2007; Smallbone 1994, BoE, 1999) has generally identified access to finance as one of the major difficulties affecting BACEs in particular and SMEs in general. The study will seek to explore and evaluate the extent to which *attitudes* create a 'knowledge gap' for BACEs. The proposition is to apply the human capital of the BACE owner manager as an explanatory factor for understanding underlying behaviour relating to their perception of being discriminated against within the market place for accessing business finance. This may add a new perspective to the body of knowledge pertaining to BACEs and access to finance.

Human capital in this context focuses on the economic behaviour of the BACE owner manager, especially in the way their education, previous experience, and accumulation of knowledge and skills influence their chances of accessing external finance – and in so doing, to increase the performance of their businesses. The underlying implication of the human capital perspective is that the relevant qualification and experience acquired has an impact on the chances they have in accessing finance from external sources.

Cultural and social concept are interlinked and embedded in the human capital of the BACE owner managers. The publication of the Macmillan report (1931) and the Cruickshank (2000) report, presents a heightened awareness of the problems small firms have traditionally encountered when seeking formal

sources of bank finance. In a 'perfect market' setting, where full information is available to both the finance provider (bank) and the business owner, a finance gap or market imperfection would not arise. The next chapter offers some detailed discussions on this concept.

Cultural capital in the context of this research relates to the ideas and knowledge that the BACEs draw upon as they interact with the agents, specifically 'finance providers' and 'intermediaries' providing concerning access to external finance. This concept focuses on the possible effects of the generational characteristics of BACEs in areas such as language, knowledge of the system, source and credence of qualification. There is a possibility that there may be significant variations in the human capital for first, second and third generations. One of the research questions is to consider to what extent the generational effect impacts on access to external finance. For the purpose of this study, social capital will focus on networks: the relationships within and between them, and the norms which govern these relationships.

There is a lack of systematic, integrated knowledge about the choices and options explored accessing external sources of finance. Therefore, this research aims to contribute to the understanding of the difficulties BACEs experience in accessing bank finance by considering the influence of factors not covered previously in other research. Furthermore, the recent financial climate referred to as the 'credit crunch', makes this research particularly interesting for understanding the real issues attributed to the barriers BACEs face accessing business finance. The logic behind this view is that the 'behaviours' of BACEs in terms of options of finance sought and the decisions of investment, seeking business support and perceptions is more exposed due to the market conditions which becomes more challenging for all businesses in general. Those behaviours – mind set, innovative tendencies, knowledge of the finance market and the survival strategies required to survive and compete in the market – become a subject of focus which may contribute adversely or positively to the chances of accessing finance or survival in the market place.

However, this research still presents an opportunity to explore BACE behaviours in terms of reacting to *external stimuli*. In other words, this research coincides with an era where external finance becomes increasingly more difficult for SMEs irrespective of ethnic orientation, size or sector. It may have been possible that small businesses have had to adopt survival strategies at the peak of the 'credit crunch' rather than seek growth avenues. It is also possible that the underutilised alternative sources of finance (such as Government guaranteed loans and community focused finance initiatives) may become increasingly popular, with the hope that BACEs would consider these as an alternative source of finance and therefore increase their chances of accessing finance.

1.6 Research Objectives

The objectives of this research are as follows:

1. To analyse the influences of different aspects of human capital on the difficulties of BACEs access to external finance:
 - a. The behaviour(s) of the owner manager is believed to guide the success of the business and its ability to secure business finance, therefore, the experiences, socio-cultural orientation of the BACE will be explored.
 - b. The type and level of the owner manager's qualifications forms part of the focus for this study and will be looked at in some depth in order to evaluate its relevance to the attitudes and actions of the owner manager.
2. To assess the effects of cultural factors and generational differences on the ability of BACEs to access external finance:

The cultural and generational factors that may influence the behaviours and/or decision making of the BACE accessing business finance from formal sources is to be investigated. This study looks at the relevance and interrelationships of these factors with a view to understanding and

explaining some of the underlying reasons why some BACE perceptions are largely negative concerning accessing finance from formal sources. Chapter 2 provides some extensive discussions about the 'enclaves' and the impact of these in shaping the 'attitudes' of BACEs.

3. To investigate the influence of attitudes and experiences of BACEs on their ability to access external finance:

- a. This study sets out to investigate and evaluate how 'attitudes' weigh in on the behaviours of the BACE. The suggestions in the literature on this subject indicate that the negative experiences of BACEs concerning access to business finance are largely 'perceived' rather than 'actual'. This triangulation of opinion and experiences of the three key players – i.e. the 'demand side', the 'provider side' and the intermediaries – is to extend and improve upon past work by using 'insider accounts' to establish a position of consensus.
- b. The study also explores the experiences of the business owner manager with the UK finance systems, conditions and relationships with the provider sides – lending banks.

4. To identify business support gaps and usage among BACEs

- a. There is a view that mainstream policy may be incapable of addressing the specific barriers facing those micro-businesses which are BACEs. The justification or evidence of this is to be traced from 'insider accounts' of both the demand and provider sides. This research sets out to identify the options for corrective strategies, focusing on business support gaps, as it relates to BACEs in London.

1.7 Research Questions

The research aims to find answers to the specific questions:

1. How does human capital (e.g. relevant qualifications and experience) influence BACEs in accessing external finance?
2. (a) To what extent do cultural factors and generational differences affect BACEs in accessing external finance?
(b) To what extent does the BACE owner manager's attitudes influence the ability to access external finance?
3. What are the policy implications of any finance gaps identified in the study with focus on business support systems?

1.8 The Research Structure

The structure for this thesis will consist of seven main chapters as outlined in the next page:

Chapter 2: Literature review

This chapter presents a detailed account of the key issues concerning BACEs. The purpose is to convey to the reader what knowledge and ideas have been established on the wider Ethnic Minority Businesses (EMBs) and more specifically BACEs. The section positions the study in relation to the existing literature available and attempts to identify gaps in our understanding of the research topic. The literature searches concern access to business finance in the United Kingdom generally with a focus on London from formal sources i.e. High Street banks. This is not simply a descriptive exercise, but also presents the reader with some appraisal of the reported literature and its limitations. There are three sub sections of this chapter:

'The demand side' refers to BACEs (owner managers and/or new business starters), this focuses on the experiences, perceptions and the unique characteristics of BACEs concerning access to finance.

'The supply side' refers to the lending banks, particularly commercial banks. The scope covered the usual sources of finance that BACEs utilise; practices of the lending banks such as processing of loan applications; collateral requirements

and other issues and/or gaps concerning the 'provider' and 'supply' relationships.

'Intermediaries': This sub-section looks at business support services and policy implication for BACEs. The literature also discusses the gaps in business support provision and the take up of these services. This chapter also looks at the policy gaps, the impact that business support can have and the relevance of the services offered concerning BACEs.

Chapter 3: Methodology

The chapter looks at the rationale and the philosophical assumptions that underlie this study. It presents an opportunity for assessing the appropriateness of the research methods most suitable for answering the research questions. This chapter is divided into three main parts: the first part looks at the theoretical underpinnings driving the research methods whilst the second part looks at the *design considerations*; which cover the preferred technique, its limitations and the alternative methods available, the third aspect looks at the data management and analytical perspectives.

Chapter 4: Secondary data analysis

This chapter looks at evidence from the most recent London Annual Business Surveys (LABS – 2006, 2007). This large scale survey (covering more than four thousand privately-owned businesses) is a valuable source of secondary data and enables BACEs to be compared with other groups of businesses, notably white owned businesses. It serves as a reference point for measuring the extent of the demand for external finance and the problems in obtaining it from BACEs compared to other EMBs and white-owned businesses. The underlining data for the 2007 LABS was analysed and inferences drawn from the findings of the experiences of BACEs in relation to five other ethnic groups.

Chapter 5: BACE perspectives: Primary Research Findings (1)

This chapter presents the findings and analysis of a programme of face-to-face, semi-structured interviews with purposely selected BACEs (i.e. the demand side). It presents empirical findings based on the research questions set. Each

research question forms a subsection and themes that emerge under each question are presented, analysed and discussed. Reference is made to the set objectives and identified research questions in a way that the reader is provided with narratives of the respondents. In the process, a rationale for the choice of methods adopted is closely matched with its efficiency in addressing the research questions.

Chapter 6: Bankers & Intermediary Perspectives:

Primary Research Findings (2)

This is similar in context, plan and presentation to the previous chapter. The focus here is on the 'Finance Providers' and 'Intermediaries'. The providers comprise the purposely selected commercial banks and the intermediaries include the public, private and voluntary sector (referred to as the 'third sector') business support providers.

Chapter 7: Conclusions & Recommendation

The concluding chapter summarises and highlights the key findings of the research whilst the aims of the dissertation are revisited. It sets a basis on which contribution to knowledge and new insights/methodology is arrived at and also offers the opportunity to appraise the research methods and techniques utilised in this research. The policy implications for the key players i.e. BACEs, finance providers and intermediaries - are discussed. There is a 'check' on the appropriateness of the research methodology and an appraisal on whether the methodological considerations and approaches best answered the research questions. In the same vein, the limitations of the study are highlighted and issues identified for future research. Finally, the contribution made by the study to the body of knowledge in terms of new insights is summarised and recommendations for policy implications and future research are discussed.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This literature review is a critical discussion of what is the present state of awareness relating to the Black African and Caribbean Entrepreneurs (BACEs) in London. The review of literature is to assess what is known about BACEs, and what their attitudes are concerning access to finance. This chapter is concerned with a critical discussion of previous published work – past and more recent. Some American perspectives have also been looked at in brief, with a view to examine whether international perspectives promote good practices and to explore what lessons can be learnt.

The literature on BACEs is sparse and setting out to review literature in this particular area of research is an interesting challenge. The sources of the review includes research findings and the whole range of governmental statutory and voluntary sector establishment reports, briefing papers, text books, newsroom briefs, conventional papers, empirical and non-empirical studies pertinent to the research area.

There is a continuous stock of evidence documenting the multi-faceted and increasingly fluid nature of small businesses (LDA, 2005; CEEDR, 2007), but limited information on BACEs in particular. Previous research suggests that access to finance is one major barrier for EMBs with regards to business success. BBA (2002); BIS (2005); Ram (2006); Law (2007) looked in detail at the business banking needs of EMBs in general. In particular, these researchers identified the extent of the barriers these groups face compared to their white counterparts. However, there is scope for further research in identifying the reasons for this. In general, the research findings consistently indicated that there was no real evidence of discrimination to accessing business finance by Black and minority ethnic groups compared to their white counterparts. Fraser (2004, 2008) reported in his UK survey of SME finances study that no tangible evidence exists in suggesting that some groups indeed faced discrimination accessing business finance but that pockets of these groups, particularly BACEs faced relatively greater difficulties by virtue of the business enclaves/niche formed in

the communities they served. These were synonymous to similar enclaves formed by other niche groups such as Polish immigrants (Engelen, 2001) that 'fit' the same Ethnic Minority Entrepreneur (EME) profile.

2.2 Structure of the literature review

The literature review covers **three** main areas:

Demand-Side:

This section looks at the unique features of BACEs; detailing the characteristic profiles in terms of definitions, size, and comparison with the other ethnic minority businesses (EMBs) in London. The section also reviews the economic activities unique to BACEs, including experiences and perceived barriers of accessing debt finance. Finally, a detailed review of human capital characteristics of BACE owner-managers and the impact of this on eligibility to debt finance is presented.

Supply-Side:

This section presents the literature relating to the finance providers with reference to high street banks, which are the more formal sources of business finance in general. The section looks at various sources of business finance used by BACEs in particular and the more general EMBs. The section also looks at the available literature about the relationships, experience and knowledge that the supply side have of EMBs. For example, one of the propositions in some research is that banks generally have very poor knowledge of ethnic minority businesses. The literature presents some of the relevant issues and factors that widen the information gaps in relation to BACEs.

➤ Intermediaries:

Intermediaries refer to business support provision; the section explores the effectiveness of partnerships and the relevance of the role business support play in enhancing accessibility to information and advice. There are also specific references made to the impact of policy initiatives.

2.3 BACEs (Demand-Side)

2.3.1 Introduction

One of the pioneering studies of ethnic minority entrepreneurs was conducted by FOCUS Central London in 1999 and many more emerged over the subsequent two decades. Prior to this, UK research on ethnic minority business tended to be heavily preoccupied with explaining the extraordinarily prominent business presence of ethnic communities originating in the Indian sub-continent (Ram & Jones, 1998). Even at a time of generally rapid self-employment growth, South Asian rates stood out far above the national average (Curran and Burrows, 1988), presenting a paradox of a national entrepreneurial renaissance, on the face of it, led by racialised and displaced ethnic minorities (Ward 1987; Barrett *et al.* 1996; Ram & Jones, 1998). However, apparent weakness can turn out to be strength and according to American pioneers in EMB research, migration is historically correlated with inordinately high levels of entrepreneurial self-employment, both in the USA (Light, 1972; 1984) and elsewhere (Bonacich and Modell, 1980).

Subsequent studies, (Small Business Services, (2001) Bank of England (2000); Ram (2000) BBA (2002); Fraser (2005, 2008) amongst others appear to agree that BACEs account for around one in every ten of all small and medium enterprise (SME) business units in the UK and this share has remained constant over the last two decades (BIS, 2011).

2.3.2 The Concepts of Human & Social Capital

Traub (2000) traced the development of Human Capital, to an economist, Theodore Schultz in 1990. He equates the concept to all those human capacities, developed by education that can be used productively. The capacity to deal in abstraction, to recognise and adhere to rules; to use language at a high level are all synonymous to this concept. Human Capital, like other forms of capital, accumulates over generations; it's a thing that parents 'give' to their children through their upbringing, and that children then successfully deploy in school, allowing them to bequeath more human capital to their own children. The UK surveys of SME finances (Fraser, 2005; 2008 & 2009) provides a detailed insight

into the correlations between education attained by BACEs compared to a control group of white entrepreneurs of like characteristics in terms of size and market niche.

Fraser indicated that there is a positive correlation between qualification and entrepreneurship. This concept is also supported by Hayton (2004) who suggested that, educational achievement is positively associated with self-employment and small business ownership. Hayton, an American expert in strategic human capital management in SMEs, confirms that human capital is believed to be an important source of sustained competitive advantage. This was particularly relevant to firms operating in complex and dynamic competitive environments where the capability to rapidly acquire and assimilate new market and technological capabilities is the key to enduring advantage that is clearly weak amongst certain ethnic enclaves. There is a very high occurrence of postgraduate and management qualification reported amongst BACEs compared to other EMB groups (Fraser, 2005, 2008). Fraser's findings suggested that the BACE owner managers who had a significant level of management qualification tend to set up businesses in non-traditional sectors and therefore had a better chance of accessing external finance.

The findings reported in a number of studies including Hasluck et al.'s (1997) work in Southwark and Lambeth in partnership with the Warwick University indicated that the findings that Black business owners were better qualified than their ethnic group-counterparts brings up interesting issues, which is part of the focus for this research. However, contemporary human capital theories (Hayton, 2004) support the notion that acquisition of higher qualification enhances the decision making of the business owner irrespective of race. There is the belief that the process of identifying and exploring entrepreneurial opportunities is uncertain and poorly defined when race is brought into the thinking. In other words, the emphasis on race alone, hardly offers adequate explanation for the reported perceptions of BACEs.

The 'ethnic enclaves' characteristic of this group promotes tolerance of failure which is often blamed on external stimulus such as market forces. If this

suggestion is acceptable, then BACE reported failures amongst some owner managers is not hinged on ethnicity but rather, other factors come into play. Clearly, there is shortage of literature about Human Capital and its impact on the accessibility of BACEs to business finance in the UK. The findings so far in literature support the notion that the concept of Human Capital is an important factor which can be used to explain the reported perceptions of BACEs in relation to the BACE attitudes and experiences with finance institutions. The American experience applies sociological and economic indices or approaches in explaining the concept and how it may affect the cognitive behaviours of the target group. The key elements looked at are presented in the next sub-sections:

2.3.3 Social & Human Capital: A Measure of Entrepreneurial Success

It was the work of Robert D. Putnam (Putman 1993; 2000) that launched social capital as a popular focus for research and policy discussion. 'Social capital' has also been noted by the World Bank as a useful organizing idea. They argue that 'increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable' (The World Bank, 1999). Putnam (2000) refers to the ideas of physical capital as physical objects whilst human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called “civic virtue.” The difference is that “social capital” calls attention to the fact that civic virtue is most powerful when embedded in a network of social relations.

In other words, interaction enables people to build communities, to commit themselves to each other, and to knit the social fabric. A sense of belonging and the concrete experience of social networks (and the relationships of trust and tolerance that can be involved) can, it is argued, bring great benefits to people. Education and length of experience in the labour market are the usual measures of human capital (Mincer 1974; Hayton 2004; Putman 2000). In more general terms, the assumption is that investments in education tend to increase an individual's generic skills and that additional experience in the labour market

will improve the individual's job-specific skills. Contemporary human resource management systems advocate that, the business performance of the entrepreneur is a direct function of the level of human capital acquired. In a US study of 99 SMEs, modern HRM practices that promotes discretionary behaviour, knowledge sharing, and organisational learning and diversification out of 'ethnic enclaves (in the case of BACEs) were found to be positively associated with entrepreneurial performance (Hayton, 2004). *Cognitive skills* are also sometimes included as human capital, although good measures of cognitive skills are rarely available in studies of labour market outcomes. In the UK context, there is limited application of the cognitive skills in explaining perceptions and attitudes, particularly relating to BACEs and access to external finance. Alternative clinical cognitive approaches exist in the Health and Care sectors but these are outside the scope of this research and perhaps relevant for further study.

Putnam (1993) in the "Prosperous Community" gave a good account of the concepts of *social capital*. He compared *physical capital* and *human capital* as tools and training that enhance individual productivity. He presented "social capital" as features of social structures, such as networks, norms, and trust that facilitate coordination and cooperation for mutual benefit. It is also possible that the financial institutions (particularly the banks) may fail to recognise the poor social capital available to BACEs as a barrier and often not considered as a mitigating circumstance for this group when seeking business finance.

Other authors such as Farkas (1996) looked more specifically at Human Capital as a measure against Cultural Capital to explain the relative business failure of ethnicity groups and poverty groups in urban cities of America. The study seeks to re-orient understanding of the early education determinants of social stratification outcomes. It focuses on the processes and consequences of unequal *skill attainment* for ethnic and poverty groups in American urban cities. The skills referred to here, include graduate and post graduate education. There is a notion that the inner-city groups were unable to acquire high grades in college due to the inherent social inequalities attributed to the socioeconomic characteristics of the living conditions of inner-city homes. This can be likened

to the UK perspectives, and in-fact previous research (Fraser, 2005) suggests that the inequality in access to employment is a driving factor for Afro-Caribbean people to go into private enterprise and self-employment.

2.3.4 Overseas Qualification

Immigrant qualifications may have less value in the labour market than their counterparts who acquired theirs in the UK. Friedberg's work (1996) suggests that the returns to education acquired overseas may be less than the returns to education acquired in the host society, and that this may account for the earnings disadvantages of immigrant entrepreneurs. "An important determinant of immigrants' economic success is the value in their destination country of the human capital" (Friedberg, 1996).

However, there are strong feelings amongst many BACEs that other ethnic groups and their white peers with lesser or equal educational qualifications and experiences have an advantage in accessing business finance (Friedberg, 1996). This can be attributed to perceptions and cannot be portrayed as a generalization without empirical evidence. English Language can also be seen as a major aspect of the migrant's human capital that affects earnings and that can explain a substantial part of BACEs disadvantages in the labour market (Carliner 1980; Chiswick 1991). It could also be argued that overseas qualifications may be deficient in preparing the holders to be able to write and develop suitable business plans, adequately complete application forms, or properly understand the requirements of the application.

2.3.5 Returns on Educational Investment

American literature has presented some key questions whether the second generation entrepreneurs receive the same *returns* on their educational investments as do native white American entrepreneurs. The evidence suggests that second or later-generation American Black Entrepreneurs received lower returns to their education than other second-generation ethnic minorities (Perlmann 1998, Borjas 1994b). The notion of predisposition to disadvantage of first generation BACEs compared to the British born second generation BACEs

was evident during the pilot study interviews. It was clear that some of the owner managers who had immigrated into the country did not have the same level of awareness of financial institutions and social structures.

Heath (2001) used the “assimilation” concept to explain this. He supported Friedbergs’ (1996: 4) theory of assimilation. He argues “when immigrants first arrive in a new country, they are at a disadvantage in the labour market, relative to natives with comparable demographic characteristics and skill levels”. One reason is that natives have many country-specific skills and information that immigrants lack. As immigrants spend time in the host country and begin to acquire this country-specific knowledge, their labour market performance and competitiveness may be expected to improve.

2.3.6 Discrimination or Skills Gap

Economists in the American literature have hotly debated the issue of whether discrimination against Blacks persists despite acknowledging their possession of adequate human capital. This has been studied in a number of ways. The dominant approach in American literature is to apply economic theories to see if Black-white wage differentials are evident even after statistical controls for levels of human capital, language skills, opportunities, and so on. One of the approaches used in the US context, which has not been applied in the UK perspective, was to employ more direct tests involving *audit studies*. This approach involves matching pairs of individuals with similar education and experience but different social factors (race, source of qualification etc.).

The PIU report (Heath, 2001), to the Cabinet Office, reviewed the American experiences using sociological and economic theories to explain the disadvantages that Black people experienced in the labour market. This context was a good reference point for policy development in the subject area. It was clear from his discussions that *Human Capital* was one of the key factors responsible for the disparity in earning potentials between the Blacks and whites in the labour market (Heckman, 1998).

The relevance of the American literature is to stimulate the debate for attempting to separate perceptions from reality as it relates to access to finance

by BACEs. Literature in the UK is limited in the area of Human and Social Capital, but these concepts provides a platform for explaining some of the alleged discrimination reported in recent research.

2.3.7 Unique Characteristics of BACEs

There are suggestions in recent literature that some of the key features of BACEs which make them seem less favoured by financial institutions (commercial banks) relates to their size, business location, innovation and use of ICT, business and social network and lack of collateral (LDA, 2005; Ram et al, 2001). Other research (Ram et al, 2001) provided alternative explanations in purely business sense, that the predominantly micro-enterprise nature of BACEs appears to be one of the disadvantageous factors affecting their ability to access external finance, as is the case for all micro-businesses rather than the personal attributes of the owner managers. This can be explained, in part, by the 'ethnic enclaves' concept that was mentioned earlier and that the communities within which the BACEs operate are prone to business failures by virtue of closed business markets. It was also suggested that it could be that the business sectors occupied by the group are risky ventures and are less favoured by the 'supply side' – the High Street banks. Subsequently, their lower propensity to access start-up and growth finance contribute to poor performance due to 'under capitalisation' (Jones et. al., 1994).

2.3.7.1 Ethnic Enclaves

For the purpose of this research, 'ethnic enclaves' refer to concentrations of ethnic minority immigrants in specific communities. This can lead to the marginalisation of these ethnic businesses if they are unable to reach the larger markets needed for business growth. The 'enclaves' that arise from these communities make some businesses 'risky' because of their marginalisation and other associated factors such as language proficiency (Beckhusen et al. 2012); poverty and ethnicity (Garner & Bhattacharyya, 2011) and dynamics of 'personal networks' (IEF Paper, 2011). The creation of ethnic enclaves in itself is inherently characterised by factors that make them prone to business failures,

largely because of marginalisation (Basu & Altinay, 2002). The ethnic enclave phenomenon exists virtually everywhere 'immigrants' flock together. The American perspective has a laissez-faire attitude towards assimilation and language acquisition. The U.S government does little to provide immigrants with assistance in learning the new culture or to speak and write English proficiently.

A common language facilitates social interaction or 'trade' in Lazear's (1999) terms. For immigrants, the ability to speak the language of their host country enables them to communicate with the majority of the population, thereby lowering 'information barriers', consequently assisting integration into the new country. Thus, not surprisingly, many immigrants move close to their own countrymen (Bauer et al., (2005); Gross & Schmitt, 2003) in order to take advantage of the informal networks of friends, relatives and acquaintances and thereby become part of the 'ethnic enclave'.

Entrepreneurs are embedded in the network of social relationships which enables them to acquire the resources and information from the external environment (outside the enclaves/ethnic flocks). The embeddedness of entrepreneurs in the network of social relationships is of importance not only for entrepreneurs in general but for ethnic minority entrepreneurs in particular. The social embeddedness framework asserts that the "study of economic activity must include the analysis of social context within which economic actions occur" (Granovetter, 1985; Uzzi, 1997, 1999).

2.3.8 Customer & Market Profiling of BACEs

It has been established that it is quite important to recognise the demographic characteristics of BACEs – geographic location, of customers, their ethnicity and type. The Focus Central London, Training and Enterprise Council study of BACEs in Lambeth and Southwark in 1999 provided detailed demographic profiles of BACEs in two select inner-city boroughs of London. The research suggested that over two thirds of the customer base were local (from within the Borough) and that this is much higher than other research on London

businesses. The research indicated that BACEs were more reliant on customers from their own ethnic background compared with ethnic minority businesses in other surveys (Bank of England, 1999, Basu & Altinay, 2002).

Firms in customer services, retail and manufacturing were particularly reliant on ethnic customers, in economic growth terms, these features show that it was inevitable that these groups could suffer negative scoping (in terms of scoring from loan application points system) which does not favour growth and diversification into creative and professional businesses. In other words, the high dependence on local markets does not bode well for growth (BBA, 2000).

A Joseph Rowntree Foundation (JRF) supported project (2011) looked at the link between place, poverty and ethnicity in England. The resulting paper analyses ways in which location impacts on the relationships between patterns of poverty and ethnic groups in terms of employment, clustering and residential segregation. A reflection on this literature points out key points in the debate about the spatial concentration of minority ethnic groups and the impact of this concentration on experiences of poverty. The JRF paper also extends the debate and considers possible implications for spaces of poverty characterised by 'concentrations' of majority ethnic groups. The discussion of poverty, ethnicity and ethnic enclaves are necessary to move away from analysis that posits vulnerability to poverty as arising from ethnic identity or culture. The inclusion of a consideration of 'ethnic enclave' allows an analysis that considers the lived context of ethnicity which offers an assessment of the resources and barriers available to an ethnic group in particular locations.

The highest concentration of poverty is in inner-city urban areas (although as Milbourne, 2010) points out, around one in five poor people live in rural areas). Hills et al., (2010) conclude that lower level incomes across the board are quite stable; it is the growing discrepancy between lower and higher incomes – with strong regional variations – that is noticeable. Unsurprisingly, that report finds that the socio-economic group is the primary index of deprivation. Therefore, the potential market place for BACEs would be limited in terms of the 'earning potential' and the disposable income. This position also means that

microbusinesses that service these groups invariably suffer cash-flows and make access to finance a problem. Dependence on ethnic markets that are inherently characteristic of higher than average poverty levels (Kintrea et al., 2008) can signify business failure for entrepreneurs depending solely on these communities.

There has been a longstanding concern that minority enterprises are overly concentrated in a small number of business sectors – often in highly competitive and crowded markets such as restaurants and small-scale retail or personal services targeting minority clients, such as hairdressers and beauty shops. As well as operating in highly competitive and precarious markets, these enterprises have tended to cluster in labour-intensive and low-profit areas of activity (Ram & Jones, 1998; Smallbone, et al., 2007)

2.3.9 BACE Skills Acquisition

The experiences that business owners have before starting their businesses is believed to have an important influence on the types of activities they undertake, their survival rates and growth potential. Research (Castells, 2000) suggests that individuals who have been employed in high skill or technical areas, and who have developed a set of skills, which could be subsequently utilised in self-employment context, have a good chance of success. Aldrich et al., (1984) and Jones, (1992), support this claim by relating the probable success rates of BACEs accessing finance to human capital and personal resources. For example, one theory supports the fact that, some experiences and aspiration of particular BACEs who were born and raised in Britain had a relatively greater success than those who were first generation immigrants (Ram, 1998) – meaning those BACEs who were not born nor raised here in England and would not have a verifiable educational track record. It is believed that acquiring complete fluency in English Language obviates communication barriers, whilst the second-generation BACEs also enjoy the opportunity to acquire recognized educational qualifications.

The general opinion is that BACEs generally have adequate management and or higher qualifications, but these skills are often seen not to influence decisions on loans applications because they are irrelevant from the points of view of loans assessments which are often centralised and do not capture or record qualifications (and other personal attributes) of the applicant. Interestingly, other research (Smallbone and Fadahunsi, 1998) suggests that there is still room for those business owners not from the second and third generations to acquire contemporary business skills which might enhance their business case presentations. They concluded that 'education in terms of business skills has a relationship with entrepreneurial behaviour particularly for those owner managers with a foreign education.

They acknowledged the importance of education and financial/business skills which can contribute towards understanding the UK market in terms of borrowing, market segmentation and advice seeking practices. Fraser (2005), on the other hand, suggest that there is evidence based on quantitative data that other control groups, such as similar white entrepreneurs which had relatively lower qualifications still experienced successes in accessing finance. The Bank of England study (BoE, 2002) looked closely at these issues and used other indices to explain the impact of business loan refusal of BACEs such as collaterals and credit ratings as more significant factors.

2.3.10 Economic Activities of BACEs

Research suggests that ethnic minorities tend to concentrate their activities in particular economic sectors (Curran & Blackburn, 1993). For example, Afro Caribbean business owners are thought to concentrate their activities in retail and consumer services with fewer in business and professional services. One of the logical explanations of why BACEs congregate their businesses in 'traditional sectors' is as a result of local demand and supply needs for local communities with high ethnic population. Individual ethnic groups have particular tastes, for example, in relation to foods and clothing. However, some of the reported problems for businesses, which mainly serve BACE communities, are that they are constrained by the size and affluence of the

market. (BBA, 2002) For example, Lambeth and Southwark are both characterised as relatively deprived boroughs with high levels of unemployment.

Ram and Deakins (1995) in their study suggested that there is a projected 'break-out' into regional/national mainstream markets which will depend, for example, on the marketing approaches adopted by the BACEs.

Creative industry activities, are more likely to be undertaken by women and some research (Hasluck et, al. 1997) reports that some women BACEs experienced relatively higher successes accessing start-up and growth debt finance than their male cohorts (FOCUS, 1999). This interesting finding appears to support some of the alternative explanations offered by the lending banks that decisions on business loans applications were purely business decisions and not discrimination.

In subsequent sections, the reasoning and practices of lenders are explored in some detail and these are compared to some of the attitudinal factors associated with some BACEs – for example, some claim or allege that they suffered discriminations if they were unable to secure finance. On the contrary, the banks claim that decisions on loan applications are purely economic decisions and do not consider the business owners' characteristics. The debate is on-going and is a subject of further research to look at other conditions guiding business loans applications apart from economic factors.

2.3.11 Perceived Barriers of Accessing External Finance

The debate about 'perception' versus 'reality' is an on-going one and various schools of thought are emerging. There are different and contrasting definitions of perception from the supply and demand sides. Wyer et al. (2007) adopted advanced 'cognitive observations' to define 'perception'. They looked at a variety of perspectives and behaviour examinations to evaluate how people think or perceive events. They developed a number of theoretical models to reflect the characteristics of social cognition. The scope of the pilot study already

completed looked at cognitive behaviours of BACEs to a small extent, but this research seeks to further explore social cognitive behaviour to improve upon existing knowledge. Wyer et al., (2007) suggest that adaptations of social cognitive characteristics are extremely beneficial to the debate of perception (Wyer, 2007:6).

Generally it is noted that *perception* is a subjective determinant of the individual and cannot be regarded as *prima facie* evidence of discrimination (Jones, 1998). A few studies (Wyer 2007 et al., Fraser, 2005) gave some insights about perceptions and/or attitudes of some SMEs concerning accessing external finance (Fraser, 2008; 2009). In some of these studies, notably, Fraser (2009); Kon & Storey, (2003); referred to those entrepreneurs who decide not to apply for loans in the first place, despite having viable business plans, because they believe they will be turned down by the bank. The concept is referred to as a 'discouraged borrower effect' (DBE). Fraser suggested that DBE existed because there are costs associated with making loans applications and banks may make errors when processing applications, due to information asymmetries, such that viable businesses may be turned down (Kon & Storey, 2003).

The knowledge about this concept is explained in many other researches and described as an effect of perception or misperception. In fact, some empirical studies indicate that incidences of discouragement are more prevalent than the actual loan refusals (Levenson & Willard, 2000). This suggests that the DBE may be a greater concern for financial constraints amongst small firms in general and most certainly, a bigger issue for BACEs due to other 'attitudinal tendencies' such as feelings of 'defeatism' usually associated with 'business failures'. Available literature mostly generalise the SME groups, but very little is evidenced within BACEs particularly. Apart from the perception issues, several other factors may exist and the investigation of these forms part of the main research goals for this study. There is a possibility that some individual BACEs who allege discrimination may be using these *claims* of discrimination as a 'justification' for their own entrepreneurial shortcomings.

Raising finance for business start-up and or growth has been reported by many researches as a common problem for small firms regardless of the ethnic orientation of the business owners. However, there is a consensus across the board that Black Africans and Black Caribbean's experience the greatest problems raising start-up finance, whereas Asians experienced the least, Stanworth & Gray (1991); BoE, (1999). An alternative explanation for this is that other EMB groups – Asian entrepreneurs record more success in accessing finance because they have a stronger social network and use informal sources of finance (friends, family, co-operative funds etc.).

Stanworth & Gray (1991) explored the correlation between the sizes of different BACEs in comparison to other EMBs and establish the positive relationships in the sense that larger businesses with 10 or more employees were less likely to have experienced problems accessing growth finance than businesses with 1-9 employees (which is predominant among BACEs) accessing start-up finance. This suggests that the banks are more willing to lend to the former, perhaps, because their financial requirements are less risky and have a much better verifiable financial track record. The difficulties experienced by BACEs have been linked to the knowledge and interrelationship workings between the commercial banks and the demand side. It is useful to note, that, larger businesses would have a better chance accessing external finance anyway, irrespective of ethnic orientation of its owner manager. The study into finance issues in the ethnic minority owned businesses in the UK by Smallbone et al., (2001) for the British Bankers Association is one of the pioneering studies into the issues concerning BACEs, because the study looked at BACEs particularly, in contrast to similar studies which looked at the wider SMEs. Some alternative explanations are looked at in the next subsection.

2.3.12 Alternative Explanations for 'Disadvantage Variation'

One of the UK pioneering studies (Flap et al., 1999) focused on the social capital tendencies unique to BACEs, the BBA report (provider perspectives), the Bank of England special report, (2000) have all come up with explanations about some of the 'real' issues which put EMBs at a disadvantage, some of these have

been discussed so far. Other aspects suggests that BACE networks were less developed (Curran et al., 1993) and subsequently more difficult for EMB bank managers to connect with these groups.

A proposition was suggested in Basu (1991), that one of the key issues may be the lack of links for the supply side (the lenders) to access BACEs and subsequently, there is an 'insufficient knowledge' about the issues faced by these groups – BACEs. The study also highlights the importance of social networks to links with providers. It has been reported (Fraser, 2004) that other EMB categories – Asians particularly are known to have stronger community links than BACEs. The UK survey (2004) reported by Fraser provides clearer evidence of the extent of abundance of small business network links such as the ethnic minority business forum and small business services, these are a few of the nationally recognised support providers to BACEs. These support providers were specifically established to oversee strategies and stimulate interaction between the supply and demand sides.

However, the gap here is the lack of a 'holistic database' of the EMBs and therefore there are no real systemic framework to provide the desired links for EMBs to access the providers of business finance and for the providers to integrate and develop appropriate framework to positively redress the perceived imbalance in accessing business finance. Again, this is a case for further research being considered at this juncture.

2.3.13 Summary - Demand Side

The reasons why BACEs face disproportionate problems accessing debt finance are not clear-cut, based on literature. The term 'disproportionate' is used within the context of this study as the relative degree of barriers experienced by BACEs compared to similar EMBs, with similar features in the UK. The use of qualitative methodology (as opposed to the predominant quantitative methods used in many research in this subject area) and the way three 'principal agents' – the demand side, the supply and intermediaries were studied concurrently is a unique approach and a key feature of this research. Therefore this study is uniquely positioned to explore the behaviours and human capacity attainment

(in terms of relevant qualification and experiences) of BACEs and how these factors influence their ability to accessing business finance from formal sources.

A number of studies (some already referenced in this chapter) suggest that one of the reasons why BACEs experience disproportionate barriers is because they have little knowledge of the finance options, processes and financial decisions made by the lenders (High Street banks) involved. More specifically, BACEs are unaware of the routes and prerequisites that have to be satisfied to obtain bank finance. Case studies (Fraser 2005, 2008) of BACEs with higher qualifications and entrepreneurial high achievement were seemingly experiencing greater successes accessing finance than many of their immigrant predecessors who entered self-employment under-resourced and pressured.

2.4 Banks (Supply-Side)

2.4.1 Introduction

The supply side for the purpose of this research refers to the providers of business finance, particularly the High Street banks referred to generally as 'formal sources' of finance though this will include a range of other sources.

One of the objectives of this research is to explore and critically evaluate the existing 'knowledge' and 'practices' of the banks concerning BACEs in relation to start-up and growth finance. To do this, literature based on interviews with bank managers forms a key source of gathering information. The most contemporary piece of work in investigating and exploring the attitudes, and practices of commercial banks was undertaken by the British Bankers Association (2002).

There is limited literature explaining how much knowledge the banking sector has about BACEs in particular, although, there is plentiful literature available about SMEs and EMBs as a whole. The problem about this is that, generalizations made about SMEs and EMBs could mask the actual issues relating to BACEs specifically. This section looks at providers of finance, the relationships with BACEs, perception and opinion of commercial banks relating to BACEs, explanations for business failure from a provider perspective and

other issues explaining why and what criteria the banks use in administering business loan applications.

2.4.2 Sources of Business Finance

The literature has indicated that BACEs predominantly use their own savings; one in five business owners' accessed funds through family and only one in five used a bank loan whilst just only one in ten had a bank overdraft (Curran *et al.* 1993). The report findings were based on surveyed ethnic enterprises (including Black African and Caribbean owner managers) from two localities to offer a responsive and fair degree of representativeness.

The survey sample focused on the wider ethnic minority enterprises, comparing some of the Asian groups with African-Caribbean enterprises. In their (Curran *et al.*, 1993) research, there were findings which raised concerns of institutional discriminations and negative stereotyping. Institutional discrimination (ID), for the purpose of this study is concerned with alleged discrimination that is seemingly incorporated into the structures, processes and procedures of financial lending by High Street banks, either because of prejudice or because of failure to take into account the particular needs of the different social identities.

In general definition, and more specific to this discussion, the key feature which distinguishes 'institutional discrimination' from other random individual forms of discrimination is triggered by social identity (like the BACEs, a specific category of the EMB group): the ID impacts on groups or the individual entrepreneurs because they are members of that group. The mention of 'ethnic enclaves' earlier supports this, the issue in this case is that 'attitudes' tend to influence the perceptions of ID rather than an actual occurrence of ID.

Table 1: Sources of start-up finance (%) – over a 12 month period

Table 1: Sources of start-up finance (%) – over a 12 month period							
	Own savings	Family Loan	Friend Loan	Bank Loan	Bank Overdraft	Other	N=
Black British	82.1	17.9	14.3	25.0	3.6	25.0	28
Black Caribbean	94.0	16.0	4.0	16.0	10.0	9.8	50
Black African	76.4	26.4	18.1	18.1	9.7	14.1	72
Asian	66.1	21.0	11.3	29.0	11.3	20.4	62
Other	93.8	12.5	-	25.0	12.5	13.3	16
Total	81.0	18.6	12.6	21.6	12.0	16.8	168

Adapted from Ram, M & Deakins, D (1995)

(African-Caribbean Entrepreneurs in Britain, University of Central England, Birmingham)

Table 1 gives a summary of sources of start-up finance used by BACEs over a 12 month period in a 1995 study by Ram and Deakins. It shows that 81% of start-up finance sources for firms studied were predominantly internal sources (savings) whilst only 21% (of the firms studied) used a bank loan. It is worth pointing out that lower proportions of BACEs accessed bank loans (Table 1). Other research has replicated these findings (BBA 2002; BOE 2004; Fraser 2007); in a BBA 2000 survey of owner managers of EMBs, 1053 firms were surveyed, and only 21% obtained bank finance over a 12 month period.

One of the explanations for this was attributed to the fact that BACEs do not access debt finance due to their perceptions of discrimination. This view is supported by Ram et al., (2003), he suggested that in the case of African Caribbean, the benefit of doubt is even less in evidence, where negative experiences with mainstream financial institutions consistently reported ever since Ward and Reeves' (1980) initial report on the question. Curran and Blackburn, (1993), in their work took an optimistic view, that the suspicion of

discriminations might be explained in purely technical terms with reference to 'business problems'.

However, Fraser (2008) refutes this notion, backed with empirical evidence. He referred to a large scale survey of UK small business finances (UKSMEF, 2004) which inferred that, there was no discrimination in credit markets. However, ethnicity appeared to influence whether business owners felt discouraged from applying for loans even after controlling for differences in loan application costs and risks. This suggests that some ethnic groups may be affected by misperceptions of ethnic discrimination. The arguments of the lenders themselves were two folds: firstly, if BACEs do not approach the banks, it would be impossible to claim discrimination practices, secondly, it was believed that the decisions made about business loan applications were purely business reasons and risk indices were used. BACEs were congregated in riskier business sectors, such as retail and localized services.

A number of other explanations were also provided in some reports, which are looked at separately in subsequent sections of this review. Interestingly, some comparisons with other EMB categories in a number of studies already reported in the previous sections confirmed that a bank loan was the most sought after source of start-up finance. Jones et al (1994) reported that EMBs demonstrated a similar propensity to have successfully accessed bank finance at start-up compared to similar white-owned firms. At the same time, Pakistani and Bangladeshi-owned businesses have similar propensities to access bank finance. The Indian owned businesses show a slightly higher tendency to do so. However these findings mask the experiences of BACEs. In other words, the disproportionate barriers reportedly experienced by BACEs appear to be lost in the wider scheme of reporting findings about EMBs in general. Since the 1995 study of the African Caribbean Business finance source profile, there has not been a similar study which has shown a significant difference in the sources sought by BACEs.

2.4.3 Alternative Funding

From the BACE point of view, there are limited alternative funding sources explored apart from internal sources as discussed in 4.1 above. The usual sources of finance peculiar to BACEs are savings, loans from friends and family and consortia contributions. Studies in the United States and Britain have explored a number of untapped sources of business finance. One of the key sources of alternative finance in the United States is the range of Community Development Finance Institutions (CDFIs). In Britain, CDFIs are still in their infancy in many cases; this initiative has considerable potential for improving alternative source for BACEs. Community development finance institutions (CDFIs) lend money to businesses and people who struggle to get finance from High Street banks. They are social enterprises that invest in customers and communities.

The initiative creates jobs and help businesses to start and grow. There are currently around 60 CDFIs supporting customers in all regions of the UK, but there are no reliable records of the utilization of these initiatives by BACEs. In 2012, the UK business secretary launched a £60 Million CDFI to boost lending amongst small businesses. The fund is enabling CDFIs to increase their lending to SMEs, micro and social enterprises across England. It was expected to create more than 7,800 jobs in the subsequent six years. The CDFI programs was designed to get finance to the small and micro enterprises that couldn't access bank finance, but can play a key role providing jobs, services, growth and prosperity for the local economy. The fund is unique in its achievement of financial and social benefits: generating local wealth, reducing welfare expenditure, breathing life into deprived and often fragmented communities and improving well-being.

However, there is an even greater emphasis on the effectiveness of business support framework for BACEs, which is looked at separately in subsequent sections of this review. Other sources of finance untapped by these BACEs

include invoice finance, such as factoring and invoice discounting which has become more common for short-term finance for small businesses (Ekanem, 2002).

Some studies (Business Link, 2000; Barrett, 1999) found no significant evidence to suggest that EMBs do not access debt finance from commercial banks. Participation and access is likely to depend on the relationship with bank managers. The challenge for lending banks is that they have few links with BACEs, therefore a knowledge gap also exist from the Banks perspective.

2.4.4 Lending Practices of Commercial Banks

The concentration of the majority of BACEs in certain sectors has been highlighted as a possible issue in relation to the banks' decision-making processes. The Bank of England (2001) survey drew attention to the importance of sector concentration for some EMB groups; the survey suggested that EMBs in particular sectors (non-traditional – such as professional services) had a higher propensity to access bank finance at start up. A number of technical appraisals (loan application evaluation) are adopted by banks in assessing loan applications. This is a centralized decision-making process. In some cases, the banks have a centralized credit risk and centralized decision-making. In other cases, the banks operate with local autonomy that allows decision making to be carried out locally by the branch manager.

The danger for this however, is the lack of a centralized, auditable monitoring, which can give room for personnel judgment and stigmatization. However, the Bank of England in a number of reports (2000, 2001) indicate that the retention of localized decision-making allows greater flexibility and offers the potential for individual managers to use their local knowledge of a sector. In practice, it can be argued that the localized framework of decision-making autonomy can be biased if the individual manager has limited local knowledge of BACEs and ethnic minority communities. An understanding of varying cultures and the ways by which policy guidelines are applied can influence the decision-making process of a BACE loan application.

2.4.5 Impact of Loan Processing Framework

The importance of sector concentration of BACEs cannot be underestimated as this forms a key criterion for business loan application. At policy level, specific strategies are applied by the lending banks referred to as technical appraisals i.e. technology aided processing of loan applications (LDA, 2005). This concept refers to finance providers which employed several econometric variables for processing of loans applications; such as for allocating and pricing loans, with the purpose of reducing information asymmetries and improving the efficiency of small business credit markets.

These technologies are broadly in two forms: transactions and relationship lending (Berger & Udell, 2002). Transaction lending relies on the gathering and processing of 'hard' data about the entrepreneur or the ability or the availability of collateral (asset based lending). Relationship lending, on the other hand, relies on 'soft' information, such as the character and trustworthiness of the entrepreneur, which is gathered over time through a relationship between the entrepreneur and a loan officer at the bank (Berger & Udell, 2002). In general, many High Street banks apply standardised assessments of loans application in compliance with the financial regulatory terms of reference, although slight discretions may apply to certain business proposals which do not fall into a clear framework of assessment – such as businesses with technical details.

In some cases, the retail sector could be difficult to assess for lending banks due to the risky nature of the business and therefore BACEs that have high concentrations in these sectors are particularly disadvantaged. Research (Blanchflower et al., 2003), has suggested that lending banks have to make economic decisions, but BACEs operating in traditional business sectors may be on the receiving end; as such economic assessments identify some of these businesses as 'risky'. The business owner managers do perceive unsuccessful chances of accessing debt finance as discrimination. The debate about the practices and judging criteria adopted by lending banks is an important one, the balance between risk management and bankable business proposals needs further debate. However, the London Development Agency (LDA, 2005)

suggests that commercial banks should have a more flexible framework and quota setting in relation to the disadvantaged groups.

2.4.6 Collateral Requirements & Credit Scoring

According to the Bank of England (BoE, 1999; Blanchflower et al., 2003), most commercial banks claimed to have been moving away from requiring security for lower levels of lending. Up to £35,000 is a usual value for which security was not required, but this has somewhat reduced since the credit crunch, loans as low as £25,000 now require collateral. However, discretionary levels vary across banks and the decentralization of decision-making discussed earlier poses a problem for subjectivity of the assessing bank manager. With start-up loan applications, a number of banks admitted that security requirements were 'more likely' for new business customers (Berger et al., 2005).

The subject of credit scoring has far reaching implications for BACEs. Credit scoring is a form of transaction lending which has grown in importance for micro business lending since the mid-1990s (Allen et al, 2004). Credit scoring involves the development of statistical models, using large samples of data on past borrowers, to predict the probability of default. Applicants' data can be fed later into the model to arrive at a credit score which then forms the basis for lending decisions. The application of a blanket scoring system indirectly and unwittingly creates an uneven field for BACEs as they fall within the small business bracket. Credit scoring has a long history in consumer lending but its application to small business loans is relatively recent. Fraser (2008) noted that the limited data availability of small businesses (not just BACEs) points to poor predictive power of the credit scoring system.

Fraser also reported, in support of Rutherford's (1995) assertions, that the key innovation was by Fair Isaac and Company (FICO) in the 1990s, who noted that personal information about the small business owner (e.g., income, personal assets, home ownership, outstanding debts and previous loan defaults) is highly predictive of the entrepreneur's repayment likelihood. The fact that anti-

discrimination legislation prohibits the use of data on the applicant's gender, race or religion to determine credit scores is a critical point.

The 'soft data' absence referred to in the earlier discussion is important and relates to parts of the focus of this study where the behaviour of the entrepreneur is being explored. Equally, behavioural scoring models are strongly associated with ethnicity (Greenbaum & Thakor, 2007).

The salient factors that emerge in the available literature suggest that there are a number of factors that influence the practice of individual managers. These include: knowledge he/she has of local BACEs and ethnic minority communities in general; understanding of different ethnic minority cultures and the way policy guidelines are applied.

2.4.6.1 Relationship Lending

Under relationship lending, loan decisions are based on proprietary information about the firm owner that is gathered over time through the entrepreneur's various dealing with the finance provider. In contrast to transactions lending, relationships can produce soft information e.g., about the character and reliability of the business owner, which may be a useful complement or substitute where hard data is sparse or missing.

Han et al., (2008) identified two key types of relationship lending dimensions; *duration* and *concentration*. Over time finance providers are able to accumulate information about the capacity and reliability of the entrepreneur in meeting its financial obligations (e.g., through the repayment history on previous loans or bank account performance). Equally, relationships which are concentrated in a single finance provider, which supplies the firm with several products at the same time, increases the precision and rate of flow of information to the finance provider. Han (2008) indicates that concentration also generates stronger incentives for finance providers to invest in relationships. Relationship lending improves the availability of finance by reducing information gaps/lending costs (Fraser (2007, 2008) depending on the degree of competition in the credit market. This concept was explained by Rajan (1992) when he compared this to

information monopoly which allows the finance provider to extract rents from the relationship so that borrowing costs may not fall as much as lending costs.

Empirical research (Petersen & Rajan, 1994) suggests that longer and more concentrated banking relationships increase the availability of finance, lowers interest rates and reduce collateral requirements (Berger and Udell, 1995). Since relationship lending relies on the development of close ties between a loan officer, acting as the finance provider's agent, and the small business owner, it can be argued that the 'human element', increases the likelihood of BACE successfully accessing finance compared with instances where arm's length scoring methods are employed (Cavalluzzo et al, 2002; Blanchflower et al, 2003). The advent of 'centralised assessment' of loan application further creates a challenge and loss of 'soft' data (personal attributes of the owner manager) discussed earlier which might have enhanced the chances of the BACE to obtain external finance.

2.4.6.2 Discouraged Borrowers

Following on from the introduction of this concept earlier, it is necessary to expand further on its significance to BACEs. There has been increasing attention, amongst academics and policy makers, on small business owners who decide not to apply for finance in the first place, despite having viable business plans, because they believe they will be turned down by the finance provider. This was evidenced in the scoping aspect of this research earlier on. Many of the BACEs who had significant difficulties in securing bank finance in previous attempts did not try again. These individuals are known as discouraged borrowers (Kon and Storey, 2003). BACEs have been reported in many studies (Smallbone et al., 2003; Levenson & Willard, 2000; Han et al., 2008b) for not seeking external finance on the premise that they would be turned down.

Two main reasons have been generally suggested for why discouraged borrowers exist; firstly there are costs (financial and non-financial) associated with making loans applications and secondly finance providers may make

errors when screening applications, due to misinformation or absence of it, such that viable and bankable business propositions may be denied finance, inadvertently creating a finance gap or what Willard & Levenson (2002) referred to as a *financial constraint*. On both sides of the Atlantic – research in the US (Cavalluzzo et al., 2002) and in the UK (Fraser, 2007) concurred that ethnic entrepreneurs are more susceptible to discouraged borrowings. Some of the reasons cited include; higher application costs due to non-ethnic factors such as inexperience, lack of financial skills, types of business. Other reasons include informed perceptions of actual ethnic discrimination or misperceptions of ethnic discrimination due to poor communication and /or information asymmetries between finance providers and BACEs.

2.4.7 Information Asymmetry

The subjects of finance gap and information asymmetry are important subjects for both the demand and provider sides. Lean & Tucker (2001) gave a detailed account of ‘finance gaps’ as a result of information gaps or misinformation concerning to SMEs in general, some of the inferences can be attributed to issues relevant to BACEs. The study did not focus on BACEs specifically; rather it looked at the small business finance markets referred to as ‘micro finance’. As early as 1931 (Cruickshank, 2000), with the publication of the Macmillan Report, suggested that a ‘finance gap’ exist for small firms owing to their disadvantaged position in the market for bank finance.

It is argued by many, Stiglitz & Weiss (1981); Berger & Udell, (2002), Allen et al., (2004); that the fundamental cause of this finance gap is the information asymmetry that exists between the provider and the demand side. External debt providers require information relating to the borrower’s default risk in order to allocate debt finance. However, information in the market for small firms’ credit may be imperfect and asymmetric with entrepreneurs being typically better informed about their chances of success or failure. This information gap exists because small firms are recognised as being less transparent with information than larger firms, and the explanation for this may be attributed to insufficient

track records and the collection of private information relating to the entrepreneur is costly (Boris & Wilko, 2007). In this context, credit rationing may arise where the finance provider is unable to verify the default risk rating of the firm; Stiglitz & Weiss (1981) theorise that this led to an adverse selection problem.

Fraser (2008) argued that under information asymmetries finance providers may require collateral on loans so that the entrepreneur bears the uncertainty of the venture. Insofar as BACEs (findings of the pilot study, 2007) are less transparent with information than their counterparts in the other ethnic minority groups (many banks lack quality data on these groups because they operate in ethnic enclaves as earlier indicated), the problem of financial constraint may affect them disproportionately. It was suggested that the information gap has widened in recent years by further centralisation in bank lending decisions and the introduction of computerised business credit- scoring. This system tends to replace people with numbers, and therefore loses out on the soft data – personal attributes of the BACE, which might otherwise minimise the effect of information asymmetry.

The theory which becomes evident through review of literature is that, ethnicity seems to play an insignificant role in the processing of business loan applications by the lending banks. However, specific factors – such as lack of credibility and good financial performance track record; mean some BACEs encounter greater problems meeting the eligibility criteria than others.

Human capital characteristics and their relevance to information asymmetry have been featured as a focal point for discussion. There appears to be similar trends in reported literature (Putman, 1993) that acknowledge the *human capital concept* as a major factor in the survival and business success of specific groups; particularly within the immigrant population. Lean and Tucker (2001) argued that the fundamental cause of this ‘knowledge gap’ may be attributed to the information asymmetry that exists between the supply and the demand of business finance. The review looked at the main consequences of information

asymmetry and how it affects the demand and supply side. UK literature tends to highlight the reported perceptions of BACEs with lesser emphasis of the deficiencies of the business loan processing by the finance industries, one of which is the recent centralization of business lending decisions in the UK.

A survey (Lean and Tucker, 2001) of private enterprises showed that when commencing a business, most of the needed funds came from all kinds of savings and private lending, not bank loans. The UK experience of BACEs is that the 'knowledge gap' and 'underutilization of alternative sources of finance' (such as CFDI's) is a bigger problem. In essence, the author suggests that whilst there is a disproportionate finance constraint affecting BACEs, the 'knowledge gap' may suggest that BACEs do not identify and utilise alternative sources of finance adequately.

Lean and Tucker (2001) describe the small firm as the agent of the finance provider, and as such, undertake to generate returns from its investment projects on behalf of the provider (the BACE in this case). What this implies therefore, is that, any failings or information gap that exists in that context not only affects the small business enterprise, but also affects the finance investment. In order to assess how wide the finance gap is, it is useful to look at, in some detail, the range and scope of finance providers. Finance providers for micro businesses range from Venture capitalists and High Street banks right through to soft loan and grant providers. However, as noted by Binks and Ennew (1996), the main source of external finance provided for small firms is bank finance. For the American situation, informal sources were the predominant source of finance in terms of success and accessibility (Putnam, 2000).

Finance gaps and its cause have been introduced earlier. The assumption is that information is distributed asymmetrically between the bank and the firm, but from the bank's perspective, it is argued that if incomplete information about the quality of the project and the management skills of the BACEs exist, the bank manager may unwittingly give rise to adverse selection. Meaning that, valid business proposals may be refused as a result of misinformation/incomplete information about the BACE owner manager

and/or the business case, and the possibility for invalid business case to be favoured.

The pilot study (Babayemi, 2007) conducted suggested that some of the BACE owner managers interviewed failed to actualise their full potentials, i.e. not fully understanding the context in which the banks process loan applications. Some of the respondents interviewed did not understand why they needed to utilize professional services to develop a business plan. Stiglitz & Weiss (1981) theory was further developed, emerging from a much earlier concept proposed by Altman (1968) by developing a matrix of risk which explains the 'adverse selection' earlier mentioned.

The Stiglitz & Weiss theory is characterised by 'credit rationing' – in economic terms, the theory is based on 'market imperfections' referred to 'market equilibrium'. This occurs when demand exceeds supply, forcing the cost of the loan to rise, decreasing demand and/or increasing supply until demand and supply are equated at an equilibrium price. In essence, the application of the theory to BACE borrowings means that where 'demand' far outstrips 'supply', 'rationing' becomes inevitable. Therefore banks granting loans are concerned with profitability and risk management. Because BACE businesses are largely 'risky' propositions mainly for those rooted in 'ethnic enclaves' such as 'retail' businesses; adverse selection may arise as a result of the 'residual imperfect information' existing.

The adverse selection aspects of interest rates are a possible consequence of different borrowers having different probabilities of repaying the loan. However, it is difficult to identify a 'good borrower' from a 'bad borrower', and to do this, the banks adopts a variety of 'screening devices', resulting to riskier borrowers being the most affected.

The information asymmetry problem may not only result in good lending prospects being rejected by providers, but also poor prospects being accepted by providers, as discussed earlier. Altman defined the latter as a Type 1 Error and the former as a Type II Error, illustrated in (fig. 1) below:

Figure 1: Risk Category Model

		Provider Thinks	
		Good Prospect	Bad Prospect
Firm Knows	Good Prospect	√	Type II X Error
	Bad Prospect	Type I X Error	√

Source: Altman, 1968

Within the parameters of this research, qualitative data is the modest evidence used to examine and explain the relationship on the information gaps between the principal (Banks) and recipient (BACE). What the model suggests is that, in theory, the provider can reduce the risk of Type 1/2 Errors by carefully screening firms at the outset and monitoring projects during the life of the loan. The problem of information asymmetry and the resulting selection and moral hazard are further compounded by certain trends which are evident in the banking sector. Firstly, competition in the banking sector is leading to greater market concentration, takeovers and mergers. This has an important impact on the market for small firm finance as there is evidence that larger banks are less well placed to build close relationships with small business customers.

The provider-recipient interaction (Fig.2) in the presence of information asymmetry is a useful tool that can explain the multidimensional perspectives and links between the demand-provider spheres of business finance. Figure two adopted from Lean and Tucker (2001) presents a model of principal (provider) and agent (demand) interaction, noting that the former focuses upon high street bank financing. It was argued that the centralization of the lending decision and greater reliance on computer credit scoring compound these problems for BACEs. The model cited in figure two has taken on a broader meaning; indeed, it often appears that the term is applicable to any type of non-bank finance

(informal) provided to small firms. The significance and relevance of this model to the information asymmetry is that it highlights the complexity and frailty existing between the agents (provider – demand relationship). Therefore if there is a tilt in equilibrium on one side, in terms of information gap, there is definitely a resultant effect on the other side.

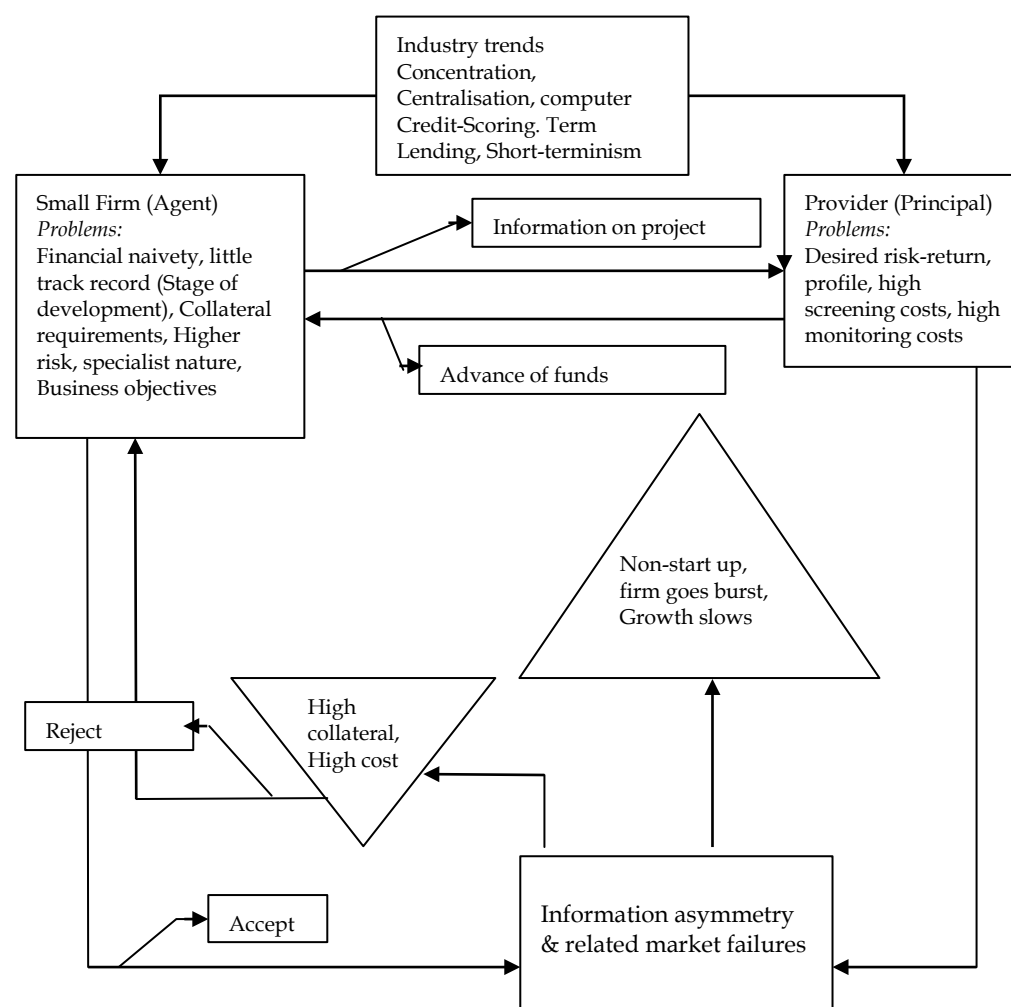


Figure 2: Information asymmetry in small firm lending (Lean & Tucker, 2001)

2.4.8 Banking & Credit Facilities for BACEs

The banking and financial services systems are highly regulated and the British Banking Association is an important source of data, ranging from legislation and regulation to annual reports, codes of practice and press cuttings. Providers of financial services of the kind with headquarters in the City of London were not traditionally interested in low income yielding businesses, migrant entrepreneurs or otherwise (OFT, 1998). Lack of access to a range of financial services has become part of the UK social exclusion agenda and the focus for

Government attention. Moore (2000) criticized some of the business loans assessment framework, which did not collect data types that would avoid discriminatory practices, but offered some explanations of the situations described. Noticeably BACEs are (or have been) on the whole, disadvantaged because they appear to come from poorer backgrounds than their white counterparts.

Moore (2000) refers to the social exclusion initiatives of the Government as commendable effort to redress inequality and create positive initiatives to provide level playing fields for disadvantaged groups. Moore's position was that bank's processing of loans applications should be flexible and responsive to the needs of 'disadvantaged' groups. The other side of the argument – from the banks perspectives was that the financial services standards were not selective and therefore, banks were handicapped in the use of discretions. The use of routine, automated methods of sending out business and banking services mail-shot, assessing insurance risks and credit worthiness all mean that inner city ethnic businesses with relatively low income (compared to white and non-ethnic businesses) are likely to be treated the same way. In other words, it is the 'actual' or 'perceived' economic status of BACEs that explains their experiences of the financial services sector, not their ethnic orientation. (OFT, 1999)

The OFT further suggests that the processes of assessing risk make it unlikely that ethnicity could be a factor. In other words, market rationality is built into the computer programmes and the exclusion of candidates for financial and banking services on the grounds of 'race' or ethnic origin would be contrary to the profit-maximising strategies of High Street banks.

2.4.9 Alleged Discriminatory Practices

The last few sections discussed *information asymmetry* in some detail and the theories applicable to both the demand and provider sides were discussed, and there are other non-ethnic variables suggested in the literature. Cultural and language barriers are further obstacles identified in the Bank of England report (1999) affecting free flow of information. Information deficiencies/poor

communications are likely to make Ethnic Minority Businesses riskier to lenders (Smallbone et al., 2003) and worsen misconceptions amongst EMBs that they are being discriminated against.

In a report commissioned by the Bank of England and published in 1998 it observed that:

Non-White businesses tended to be younger and smaller but more profitable and likely to export....pay significantly higher interest rates and have to yield higher levels of collaterals...and are... significantly more constrained by interest rates and in terms of credit available (Binks & Ennew, 1998; 30 – 31)

The 1998 report contained only a small sub-sample of ethnic minority businesses and so in 1999 the Bank of England, as a result of more systematic enquiries published a report *The Financing of Ethnic Minority Firms in the United Kingdom* (Bank of England, 1999). The available data suggests a number of reasons why minority businesses experience greater difficulty in acquiring funds and pay higher interest. Because many BACEs - particularly those in 'ethnic enclaves' are concentrated in activities with higher risks and possible failure rates, lenders view such businesses as riskier proposition to invest in. However, BACEs businesses perceived this as a discriminatory bias and that the banks could be directly or indirectly discriminative.

The Bank of England, 1999 report indicated that the direct discriminatory perceptions could derive from prejudice against a particular group and indirect discrimination would be the outcome of making assumptions about owner managers of certain groups (for example, about their activity and collateral). The report suggested that both direct and indirect discrimination might exist; however, this was not on a wide scale.

2.4.10 Policy Implication for lenders

The BBA (2002) report gave an account of the experiences, attitudes and practices of commercial banks concerning BACEs. Qualitative interviews with selected lending banks revealed that there were no overall advantages or disadvantage for BACEs associated with centralized or localized decision

making on the parts of the banks considering them for financial assistance. The study did not conclude that there were particular benefits for BACEs with decision-making system. Rather, there were both advantages and disadvantages with both systems of decision –making.

The study did conclude, however, that the crucial difference, in determining such effects on BACEs, still depend on individual bank manager practice and knowledge of BACEs and their trading practices. The key problems reported by the banks are twofold: Firstly, those decisions on business loan applications were solely economic decisions, which employ a number of automated indices to measure risks and profitability.

In practice, firms that do not have adequate collaterals, credit standing and strategic orientations, regardless of the ethnic background would be at a disadvantage accessing finance. On the other hand, the second main issue for the banks is the lack of knowledge and absence of data on the activities, success and economic sustainability for BACEs. For bank managers and loans application personnel, training and improved links with BACEs are areas that have not been effectively explored.

2.4.11 Summary: Provider Side

In summary, two key points can be made about reviewed literature on ‘perceived’ versus ‘actual’ discrimination relating to ‘banks’ dealings with BACEs. Firstly, from an economic point of view discrimination is irrational when it leads to loss of profit. Such discrimination is explained in ‘rational’ economic terms – a calculation of risk, correct or mistaken. This is not a well-founded assertion to make without very substantial supporting evidence.

Secondly, the policies of the financial institutions are likely to be written in terms of the law, official regulations and codes of practice regulating their activity. Until regulatory bodies of the banking and financial sectors adopt codes of practice on discrimination that generate monitoring data, research in this field will have to use interactive and more qualitative field work techniques of sociology, anthropology and social policy to investigate practices amongst the

supply side and to explain the impact on the demand side. These data will not be found in company files or in any convenient library in mainland Europe (or anywhere else). The challenge in engaging the lending banks in the face of confidentiality of information is immense.

2.5 Intermediary: Business Support

2.5.1 Introduction

This section considers the support needs of BACEs and how effective the existing statutory and voluntary sector support providers are in offering appropriate support and advice. One of the main research objectives for this study is to ascertain the effective relationships between BACEs and support providers and to discern their attitudes, practices and experiences towards current business support provisions. Research (Dhaliwal, 2006; Scott & Irwin, 2009) found different attitudes and levels of utilisation of business support across the different ethnic minority entrepreneurs with the African Caribbean communities being the most positive towards many business initiatives. Other categories of the EMB groups, such as the Asian Entrepreneurs have forged a better relationship with banks and these group record higher success rates accessing debt finance and other external financial services than the BACE groups.

It is unclear from the literature whether the reason for the success rates recorded by Asian entrepreneurs is attributed to a better business support system. However, Dhaliwal (2006) suggests that South Asian businesses tended to rely more on informal support networks and maximise the benefits of social capital. Some of the argument is that the business support for BACEs are less established, underutilised or largely does not meet specific needs based on the unique characteristics of the group in terms of cultural orientation.

Earlier research shows that, the response of ethnic minority businesses to support providers is generally perceived to be low for BACEs. (Marlow, 1992; Smallbone & Fadahunsi, 1998). But fairly recent research (Dhaliwal, 2006; Ram

& Smallbone, 2003; Deakins et al., 2002) have noticed an increased positive response to utilisation of formal business support. The reasons for this shift in trend can be attributed to the efficacies of policy development.

2.5.2 Context for Business Support Usage

Smallbone and Fadahunsi in a preliminary analysis of small Nigerian Firms in North London (1998), suggest that business owners' 'support needs' are the needs for external resources such as information, advice, training and other assistance which will enable them to deal more effectively with business problems. The researchers also suggest that business owners have a 'hierarchy' of support needs (based on Maslow's hierarchy of needs) which will determine; what they require, whom they require the services from, willingness to pay, and ability to use the support effectively.

The hierarchy will also vary from firm to firm depending upon economic factors, business sector, location, business size and educational background and human capital of the owner-manager. Bryson et, al. also propose a theoretical logic that the notion of hierarchy of support needs relates to another theoretical contribution which considers small firms' networking activities and use of support providers (Bryson et, al. 1993). This approach suggests that businesses' network relations and use of support providers can be placed on a continuum ranging from 'compulsory' to 'voluntary'.

All firms, it is, argued, have compulsory relations with, for example, buyers and sellers, since without them they would not be in business. However, other external links with, for example, solicitors, and external support providers are more voluntary. This theoretical contribution is enhanced if it is recognized that what constitutes 'compulsory' and 'voluntary' relationships can vary according to firms' economic activity and current business condition. Concerning the latter, for example, it is suggested that in a time of crisis the advice of management consultants may be equally important as from a bank.

Tables 2 and 3 below provide some representative data adapted from the first Ethnic Minority business survey ever conducted in Lambeth and Southwark

Table 2: Use of selected external agencies for advice & support by BACEs in a 12 months Period (%s)

Use of selected external agencies for advice & support by BACEs in a 12 months Period (%s)			
	Lambeth	Southwark	Total
Accountant	85.3	75.2	80.3
Bank Manager	55.2	41.3	47.6
Business Colleague	42.2	24.8	33.6
Solicitor	58.6	30.4	44.7
Family	37.9	28.3	33.2
Friends	20.0	15.9	18.0
Trade Association	20.2	5.0	12.6
Private Consultant	9.5	9.7	9.6
N=	116	113	229

Source: Ethnic Minority Businesses in Lambeth & Southwark survey (CAG, Consultants), 1999

Table 3: Awareness & use of support providers in a 12 months period (%s)

Awareness & use of support providers in a 12 months period (%s)						
	Lambeth		Southwark		Total	
	Aware	Used	Aware	Used	Aware	Used
Business Link	37.9	11.2	26.5	0.9	32.2	6.1
Council	39.7	6.0	38.9	0.9	40.0	3.5
PYBT	31.0	1.7	30.1	5.3	30.0	3.5
Chamber	16.4	3.4	23.0	3.5	20.4	3.5
LSBS	18.1	3.4	14.2	2.7	17.0	3.1
FOCUS TEC	9.5	1.7	17.7	1.8	13.9	1.7
E. Enterprises	-	-	8.8	0.9	8.8	0.9
Threshold	7.8	0.0	-	0.9	7.8	0.0
Instant Muscle	5.2	0.0	-	-	5.2	0.0
Total Support	-	19.0	-	12.4	-	15.7
N=	116	116	113	113	229	229

Source: Ethnic Minority Businesses in Lambeth & Southwark survey (CAG, Consultants), 1999

2.5.3 Business Support Usage

There is well documented low level of use of business support services applied in all sectors (including retail, health and professional services) and BACEs particularly used external training sources to a lesser extent than small businesses in general (CEEDR, 2001). Significantly, the low level of reported use of business support services by BACEs was not because of lack of awareness of the existence of mainstream business support; it's rather, the lack of understanding of the types of support available. There are some doubts about the relevance of what was offered, confusion about which providers can best

meet the firms specific needs, a lack of confidence and trust in those delivering support and a low level of willingness and ability to pay (CAG report, 1998). In another study, (Dhaliwal, 2006) evidence showed that there is increased usage of mainstream support provision relating to African Caribbean entrepreneurs but generally lower than their white counterparts. Some of the reasons stated were the obvious characteristics of microbusinesses irrespective of ethnic connotations – such as size; for example, problems resulting to this includes hiring workers, getting the right skills and retaining labour, lack of diversification (adverse effect of ethnic-enclaves) were all pertinent issues. Lack of time for anything other than the day to day running of the business was a major problem. So whilst open to outside business support, finding the time to accommodate it was a major challenge.

Other misgivings about the support that is offered and confusion caused by the continued fragmentation of the support infrastructure and a failure of agencies to deliver ‘one-stop’ support in practice (GLE/CEEDR, 2000) have been suggested as other reasons for the problems for BACE take up of business support from formal sources. There is also a general lack of understanding about the variety of available forms of support, as well as a lack of experience in dealing with support regimes. This is evidenced in the absence of a ‘*robust intelligence*’ on Minority Ethnic Businesses and therefore, the lack of specialist support services and support advisers has been suggested to be a real gap in policy development (Smallbone, 2003)

2.5.4 Business Support Needs of BACEs

Many of the support needs of EMBs are similar to their white counterparts (CEEDR, 2007); there are also culturally specific issues that include language, religious and gender considerations. An issue that has been addressed in a small number of papers concerns the need for supplier diversity and increasing access of Black and ethnic minority business owners to procurement contracts (LABS, 2007). Access to finance is the main barrier for BACEs and therefore, business support infrastructure should see this as its main support area. However, research suggests that the problem is the poor take-up of the mainstream

support provision rather than the lack of it (Scott & Irwin, 2009). The more recent reporting and debate on the poor take up of external advice and finance by UK SMEs was conceptualised as a model of 'discouraged advisees' (Fraser, 2009). This means that micro business entrepreneurs, notably BACEs, by virtue of their shortcomings such as: ethnic disadvantages, human capital shortfalls and gender influences contribute to abstinence from using 'trusted/formal' sources for business advice and support. In London, the existence of well-established and relatively well-resourced specialist providers was a noticeable feature compared to other localities. This meant that the range and type of services offered was relatively diverse, with some agencies able to draw upon specific funding such as EU, SRB and other regional sources. Some of the more specific support needs (cultural, generational, gender, human capital shortcomings) documented concerning BACEs arise from lack of confidence amongst business owners (Dhaliwal, 2006; Scott & Irwin, 2009; Bennett, 2008). Other factors include cultural issues, effects of bureaucracy and prejudices.

These factors warrant a more focused type of support rather than the generic support services available via mainstream support agencies, which are reported to be distanced from the realities of difficulties faced by BACEs. The impact of these gaps is a function of regulatory instruments, which is looked at in detail in the next section of this review. Delivering business support to BACEs has not recorded encouraging successes in recent times; meaning take up is low. Evidence of this is supported by Business Link – the largest provider of business support to small firms. Business Link (web portal, 2010) report declared that a mere 3.4% of BACEs utilized support services based on their clients from areas of large ethnic populations in the UK; they stated that they were involved in specific initiatives targeted at BACEs. Even though, there has been a concerted effort to engage local community leaders, funding local enterprise Agencies, working with local authorities for Grants, Phoenix

Fund, Business Clubs, women in business initiatives, working to increase access to sources of finance, and IT support. The outcome of these initiatives has not yet been evidenced and there is scope for further research in this area.

2.5.5 Gaps in Business Support for BACEs

The needs of BACEs have not been met adequately by contemporary sources of business support. This is largely due to the varying and complex characteristics of these groups. As a result a more qualitative approach is desired in exploring the explanations for the gaps in support services take up, and the inadequate availability of specialist support providers for specific groups. This concept has a number of explanations and it is a function of the standpoint that is taken. From the demand side, the BACE owners themselves, it is claimed (SBS, 2000) that there is little awareness of the scope of support available and the lack of confidence to approach the support providers.

The small Business Service statistical figures (2000 to 2005) recorded small take up of business support services by BACEs (SBS, Home Page – <http://www.sbs.gov.uk>).

One possible explanation for this is likened to the cost of the services, particularly those in the private sectors whilst the public sector support services were relatively cheaper and in some instances completely free, or at least subsidised.

Another reason for the underutilisation of the support services is attributed to the discouraged effects associated with BACEs, because a significant number of BACEs do not have faith in the use of business support for various reasons, including cost of professional support services; some of the support services do not meet the specific needs and it can be argued whether many support organizations are not actively involved in marketing their services to these BACEs. The lack of trust can be attributed to the fact that mainstream small business owners have a distrust of government funded organizations due to some of the reasons stated. At the very least, the government financed support services are considered bureaucratic and seen as antithesis of the flexible and informal style advocated by small business owners (Scase & Goffee, 1989).

In summary, the problems for support providers in raising awareness and building trust amongst BACEs relates, to a large degree, issues about information and knowledge gaps existing concerning this group, the extent to

which they are prepared to immerse themselves in community issues, and a longer term commitment to developing a credible presence amongst BACEs.

2.5.6 Policy & Strategy Intervention

Ram and Smallbone (SBS, 2001) have provided a detailed overview of policy considerations impacting on EMBs with regards to access to finance. Although it is not a primary objective for this review to critically analyse impact of policy, a number of key themes have been identified as being crucial if there is to be a positive contribution to the body of knowledge. Identifying policy measures alone will not address the perceived problems faced by BACEs. Reference has been made to the problems associated with information asymmetry concerning BACEs. Fraser (2009) suggests that policy intervention should focus on tackling underlying financial delinquency, which seems to explain much of the ethnic variations in loans refusal rates. Other areas desiring policy intervention focused at some of the underlying factors proven to predispose BACEs to experiencing higher barriers in accessing finance includes: lack of financial skills and advice; poor financial performance/credit history; and, ethnicity/cultural differences. Developing strategies and policy instruments to address cultural differences, the main reason for financial delinquency among BACEs, is a much difficult proposition.

Lean & Tucker (2001) also suggest that there is little justification for policy action with respect to the majority of small businesses, as there appear to be no significant debt finance gap. Those firms who might be characterised as micro start-ups owned by individuals who are socially excluded and, at the other extreme, small businesses with high growth-potential who may well be operating in the high-technology sector. For the former, a debt finance gap arguably exists. With respect to the latter, empirical evidence indicates that the under-provision of equity finance (risk capital) is the major issue (Lean & Tucker, 2001).

Empirical evidence also suggests that BACEs are significantly more likely to miss loan repayments and/or exceed their agreed overdraft limits and this

behaviour significantly accounts for their much higher loan refusals, therefore, financial management supports by banks is important. One of the key effects of 'credit and financial performance' is that the increased use of credit and behavioural (notable repayment history/behaviours) scoring offers a possible explanation for the apparent absence of ethnic discrimination in the UK. This is similar to the USA perspective (Blanchflower et al., (2003), the similarity is compared based on the US study which relates to periods in the 1990 before small business credit scoring was prevalent. The explanation implies that the UK credit market would manifest ethnic discrimination were it not for the remoteness between the demand and supply sides engendered by scoring systems. The misperception of discrimination is more founded in the UK than it is in the USA, perhaps due to the information asymmetry already discussed.

2.5.7 Impact of Personal Attributes on Business Support Usage

Access to and utilisation of business support is paramount to bridging much of the knowledge gaps discussed concerning BACEs. The contribution to the policy dimensions is a key objective for this study. But before key findings on the policy dimensions are discussed, this subsection pulls together some of the key variables reported to influence the uptake of different types of business advice, which in turn may have an impact upon whether external finance is either accessed by BACEs or constrained.

Experts on the subject (Carter & Shaw, 2001; Smith-Hunter, 2006; Deakins et al., 1994; Irwin & Scott, 2006; Ram & Smallbone, 2001) highlight the perceived impact and significance of the owner manager characteristics such as gender, ethnicity, and human capital as an enabling or constraining factor in accessing finance. These studies looked at the interrelationships of these key variables, which forms the key explanatory factors being factors for attempting to explain the disproportionate barriers facing the groups reported in many studies. Figure 3 below summarises the assumptions presented by these studies as a conceptual model. The characteristics have been discussed in this literature review in some depth where applicable.

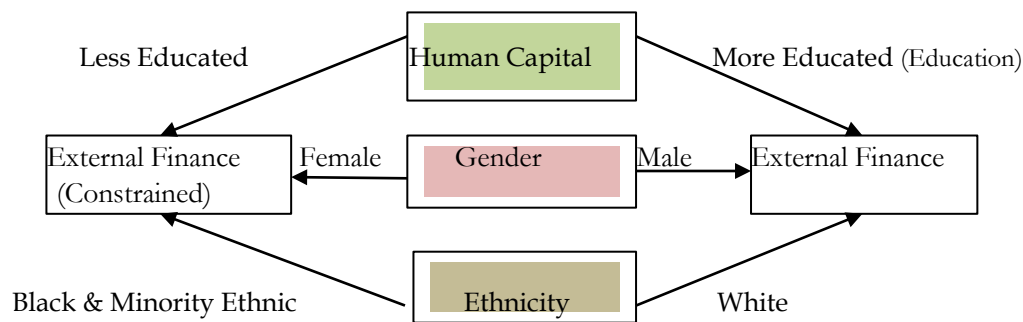


Figure 3: The traditional notion of how owner-manager characteristics influence the finance constraints (finance gaps) of business loans applicants who possesses viable business propositions

(Source: Adopted from Scott & Irwin, 2009).

2.5.8 Policy Intervention for Support Agencies

Amongst a number of suggestions proposed in some research (BBA, 2002; Smallbone et al., 2003; Dhaliwal, 2006 Scott & Irwin, 2009), three main areas stand out as far as business support agencies were concerned. There is need for identifying specialist support that is targeted at BACEs. Developing frameworks for clearer understanding of how the commercial banks and other external financial systems work is desirable. There is also a need to adopt a more user-friendly method in presenting cases to the finance providers bearing in mind that smaller firms may not understand some terminologies.

The high presence of ethnic minority businesses in the UK has meant recognition by government initiatives to support this group, initially in the form of Enterprise Agencies, the Training and Enterprise Councils (TECs) and in the mid/late 90s – Business Links (Ram & Jones, 1998). However, research would suggest that Enterprise Agencies have not proved popular with EMBs (Curran & Blackburn, 1993) but that BACEs are significantly more likely to use the support of an agency than either white or South Asian Owned business (Jones & McEvoy, 1994; Ram & Deakins, 1995). Equal opportunity agendas and quotas mean that there is recognition of the poor utilisation by EMBs of support services. However, there are still gaps in policy development to redress these largely because of the lack of a robust data on this group and the constraints of

sensitive data protection – such as ethnicity, which offers greater challenges for policy makers to redress the imbalance and the banks to set targets and quotas.

2.6 Literature Review Summary & Key Points

This review looked at the experiences, attitudes and practices of BACEs with regards to the widely documented barriers to accessing finance. The accounts and understanding of the commercial banks is reviewed but not conclusive enough to make generalisations. The experiences of BACE owner managers in the UK in general in raising finance are varied and the nature of the problems they face are quite complex. The range of possible explanations offered to the perceived difficulties that some ethnic minority businesses experience in raising finance is in many respects similar across a number of studies documented. But most research focus on the wider SME groups and the particular BACE category appear to be assumed in generalisations which completely masks the real issues they face. Some of the gaps in literature, rest on the impenetrable systems of loans assessment framework and decision making of lending banks, which needs further investigations. More qualitative research is desirable in understanding some deep-rooted perceptions of BACEs and the need to develop strategies that foster relationships.

It is also clear that the evidence presented in the literature reviewed suggests that banks and other finance providers have to recognize that the needs of BACEs are beyond economic basis alone, as cultural and other characteristic factors need to be integrated in the decision-making processes. BACEs themselves have a role to play in improving their access to external sources of finance. This is partly a matter of ensuring that they consider the full range of sources of finance available to them. There is increasing evidence to suggest that some BACEs tend to associate business failures with perceptions of discriminatory practices of lending banks. The literature review suggests that there is little evidence (Fraser, 2005, 2008; BBA, 2002; Dhaliwal, 2006) to support the reported perceptions of discriminatory practices.

2.6.1 Key Points from Literature Review

This *literature review highlights* a number of key points:

1. Lack of data on EMBs generally and BACEs in particular is a major problem and evident in the efforts in presenting accurate information in terms of representations in London. Estimates are often derived from data on the wider SME population in London. Very limited reliable data on BACEs in London are available
2. The reasons why BACEs face disproportionate barriers accessing debt finance is not clear-cut, based on the literature. Research reports consistently report that BACEs are not particularly disadvantaged in accessing business finance when compared to other similar groups; however, there are suggestions that some specific ethnic groups experience disproportionate barriers, when compared to the white counterparts and other similar EMBs with similar features apart from ethnicity. There is very limited literature on the causative factors for explaining these 'disproportionate barriers'.
3. The influence of appropriate qualification is seen as useful in enabling business owner managers make sound judgements and develop good business cases. The correlation between the type of education (such as financial education) and management experience is considered to be a key issue. However, there is currently little empirical evidence to reaffirm its significance in ensuring that the business owner manager, irrespective of personal characteristics such as ethnicity, is advantaged in securing finance from external sources.
4. Banks who base their judgements purely on business profiling claim that risky ventures like the ones in which BACEs congregate are 'too risky' for investment and profitability. However, literature also suggests that the knowledge they (the banks) have of these groups is poor and may be missing out of the investment opportunities BACEs can offer.
5. The literature on the provider side tends to be well balanced, ruling out discrimination when assessing loans applications. The OFT (1999) suggest that the processes of assessing risk make it unlikely that ethnicity could be a

factor during evaluation of loans applications. In other words, market rationality is built into computer programmes and the exclusion of the applicants for financial and banking services on the grounds of 'race' or ethnic origin would have been contrary to the profit-maximisation strategies of High Street banks.

6. Literature suggests that well qualified EMBs enter self-employment because they experience discrimination in the labour market and supposedly face promotional barriers and the 'glass ceiling' effect. Therefore, the subject of attitude is entrenched within these groups due to a range of wider institutional barriers facing ethnic minorities in general. The measure of attitudes is relative, but there is little research focusing on this concept.
7. The lack of data on EMBs in general appears to be a key problem as most research tends to focus on the wider SME population. Very little research is focused on BACEs specifically and hence the gaps in offering explanations of the underlying issues affecting these groups and their low propensity to access formal sources of finance successfully. The true picture in terms of numbers is a key challenge and therefore, targeted policy measures may be ineffective.
8. Attitudinal behaviours and actions of BACEs appear to influence how they seek finance and business support, for example, many do not seek debt finance and presume they would be denied. In the same token, many do not seek formal sources of business support and advice, and they pre-judge that the services on offer does preclude their needs without even trying or in many cases, they do not appreciate the benefits of it. There are a number of gaps needing more focus, some of the key areas to be investigated include the absence of targeted business advice support that are of a 'specialist' nature. Mainstream support services appear to be ineffective and therefore many BACEs in the ethnic enclaves may be reluctant to seek professional business support, mainly because the advice available did not address their needs.

The gaps found in this review of literature can be associated to a lack of sufficient qualitative research and lack of insider accounts from BACEs studies. The triangulation approach adopted in this study drawing upon the perspectives of three principal agents therefore endeavours to advance our understanding of the reasons why BACEs experience particular difficulties in accessing external finance and seeking related business support.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter considers both the conceptual framework and the practical elements of the research design. The conceptual framework (below) identifies and groups the constructs that emerged from literature. This chapter explores the research questions in more depth, and discusses the most appropriate methodological approaches, given the aims and nature of the research. It is important to place the research within a theoretical framework and to discuss the epistemology (the researchers' beliefs about how to discover new findings that seek to extend and improve upon past work in the subject area) as both affect how the research questions were refined and shaped the methodological choices. This research made use of a mix of data sources (i.e. both primary and secondary).

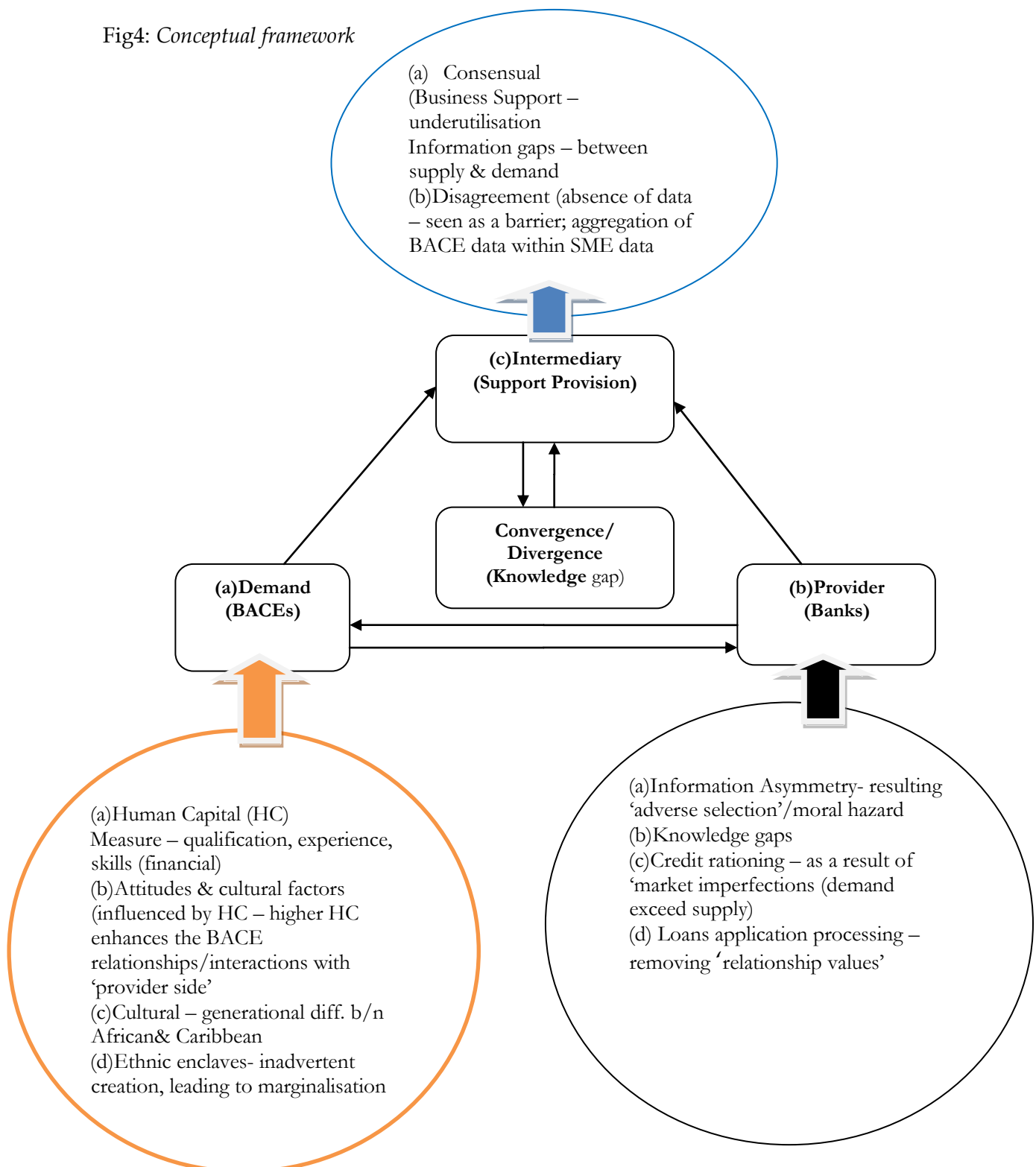
This is followed by a discussion of the practicalities of how the data collection was conducted, and the approaches taken to data analysis. Historically, quantitative approaches tend to dominate the research in this subject area, emerging in findings that categorise BACEs in a generic SME group. The problem with this is the lack of, or insufficient empirical findings that explain the underlying reasons for the behaviour of many BACEs relating to 'access to finance from formal sources'. Therefore, a qualitative method is adopted as the main methodology for this study to provide 'insider accounts' of three key research subjects– the BACEs, banks (loan processing managers) and intermediaries (business support and advice providers). Essentially, the method or technique used involved 'semi-structured interviews to obtain qualitative data. Five broad research questions were used as an interview guide emerging from the research objectives (see appendix 2). Three questionnaire instruments were prepared, one for each of the three research subjects (BACE entrepreneurs; bank lending officers; and business support agencies).

However, the use of mixed data sources adds a new and original dimension to this study, as it gives credence to the application of both quantitative and

qualitative approaches as they relate to social research. The two approaches are seen to complement each other's strengths and weaknesses, but a significant justification for the interpretive approach is because of the explorative nature of this research. The justification for the use of mixed data sources also enables the researcher to 'triangulate' findings by teasing out areas of convergence and disagreements. Most social research is based on either positivist (quantitative) or interpretive (qualitative) approaches, with much of the previous research in this field using an essentially positivist approach based on the quantitative analysis of large survey data sets. Adopting a qualitative approach based on semi-structured interviews with three different groups of actors helps to advance our understanding of the reasons why BACEs experience difficulties in accessing finance and related business support by looking at different perspectives. For example, the analysis of a secondary data (LABS 2007) provided a control (i.e. comparing BACEs with white owned and other ethnic minority businesses). The approach also provides unique evidence on the demand for different types of finance.

3.1.1 Conceptual Framework

Fig4: Conceptual framework



The framework maps out the key constructs that emerged from the literature review and has been grouped under the three principle agents where the themes emerged from. It was noted that the BACE themes had to do with the unique characteristics that best describe the accounts they gave whilst the same applied to the providers/banks and the intermediaries, each presenting their own accounts and views concerning the research objectives. These thematic are used to focus and design the research strategy that helps establish the lines of enquiries for the primary research.

These are social phenomena of which their meanings are continually being invented and modified by social actors, as grouped in the framework guiding the field work. key constructs that emerged from the literature review such as 'human capital'; 'culture' and 'attitudes/behaviours' from the 'demand side' and indeed other constructs from both the 'provider' and 'intermediary' perspectives are viewed as being 'constructed' and therefore, the researcher sees these as a function of time and place, as they are not definitive and are constantly changing. Therefore, it can be inferred that the onset of the 'credit crunch' would have influenced the BACE and provider perspectives on the difficulties of accessing finance, in other words, had there not been the advent of the economic crisis, it may be argued that the principal agents, notably the demand side may have viewed the barriers they face in accessing external finance differently. Each of the principal agents views creates some areas of convergence (i.e. human capital relevance to the chances of the entrepreneur to make informed decisions of the type and source of finance needed based on the 'risks' and 'viability' of the business case) and a divergence of opinion about relevance of the ethnicity and or culture of the entrepreneurs. The demand side disagrees that the ethnicity and the associated issues are not financial indices to consider during loans application assessments. They claim that this in itself indicates a degree of discrimination for non-ethnic groups. Therefore clearly this is one of the areas of disagreement that was noticeable.

The reader might expect the researcher to be 'value free' and objective in this research. However, this will depend on the readers methodological stand-point –

for example, if they favoured a positivist or scientific research approach, they might expect the researcher to be 'value free', but not if they favoured a more interpretivist approach. Problematising the issues around 'bias/values' is to recognise and acknowledge that research cannot be entirely value free, but that practical choices and considerations should ensure that there are no wilful incursions of values into the research process. The factors concerned with perceptions, attitudes, culture and human capacity relate to the views of a select group – BACE's, therefore a qualitative research strategy that is sensitive to how the participants interpret their social world appear the best methodological 'fit' to achieve the objectives set. The choice of methodology ensures that purposive selection of cases is guided by the emerging constructs.

The literature review identifies a number of 'key constructs' which forms the basis for the empirical work for this study. The constructs/concepts are arranged under three separate parameters – demand, supply and intermediaries. The research questions emerged from these and the following chart identifies the 'constructs' and the framework shows how they interrelate. The key constructs that emerged characterise the various themes to explore, their state (often subjective) and how they relate with each other. There are no 'definitive' guidelines for measuring 'attitudes' but the accounts of the participant respondent provides a basis to develop theory from the analysis of information and not the other way round. To be able to have a framework to guide the research, it was important to have a theoretical understanding, that the constructs fit into specific boundaries of a social construct. Structuring the data under certain categories and headings – in the case of this study, under the three main agents – and as the model above shows, try to bring the ideas together with a view to explain the 'pull' and 'push' effects of the factors. In some cases, there are agreements and for some, divergent views arose.

3.2 Research Philosophy

Research theory or philosophy relates to the development of knowledge and the nature of that knowledge (Saunders et al., 2007). It also explains the thought processes, the drivers for choice and the evidence for the effectiveness of the

preferred approach adopted in this study. Assumptions which underpin the research strategy and processes including the specific techniques or methods considered. Nonetheless, the fact that a question for which there are multiple answers does not mean that anything goes; it means that social and business researchers choose from alternative approaches to acquiring knowledge. Each approach has its own stance on how to do research and the approaches are rarely declared explicitly in research reports. Yet, philosophical approaches play an important role in the outcomes of research, which are found across the social and business discipline and their related fields.

In this study, two schools of thought were considered. These are the *positivist* and *interpretive epistemologies*. The *positivist* research philosophy adopts a quantitative data analytical strategy which prefer 'working with an observable social reality and that the product of such research can be law-like generalisations (Remenyi et al., 1998). There are several versions of positivism, the logical empiricism which is the accepted or conventional view was considered for the purpose of this research. The classical theorists, Auguste Comte, Karl Marx and Max Weber made a major contribution to modern civilisation when they argued that the social science world could be studied as science (Bryman & Bell, 2003). The thoughts of Auguste Comte (1798 – 1857), who coined the term sociology, while dated and riddled with criticisms and interpretations continue in many ways to be important to contemporary sociology. Classical theorists contended that rigorous, systematic observation of the social world, combined with careful, logical thinking, could provide a new and valuable type of knowledge about human relations. Researchers of this school of thought seek rigorous, exact measures and "objective" research, and they test hypotheses by carefully analysing numbers from the measures. Critics' charge that *positivism reduces people to numbers* and that its concerns with laws or formulas are not relevant to the actual lives of real people (Ekanem, 2005).

The second approach considered is an *interpretive* philosophy adopting in-depth interviews. This approach provides a more meaningful dimension in the

exploration of *perceptions* and *attitudes* of specific groups; BACEs. The subject of perception is a complex area and a substantial knowledge of the cognitive behaviours of BACEs is desirable. This study argues that the applicable approach is that of exploring 'feelings and attitudes' – as a social concept which has no external reality, although they may lead to particular courses of action which influences behaviours. They cannot be seen, measured and modified like objects, therefore this approach is the predominant one adopted for this study. The accounts of the participants offers the most effective information resource, mainly because an 'interactive dialogue' enables the researcher to 'probe' into general themes in a manner that 'quantitative' methods are unable to achieve.

Philosophical approaches play an important role in the outcomes of research, which are found across the social and business science and their related applied field. (Saunders, et. al., 2007) Interpretive approach can be traced to German Socialist Max Weber (1864 – 1920) and German philosopher Wilhem Dilthey.

Dilthey (1883) argued that there were two fundamentally different types of science: *Naturwissenschaft* and *Geisteswissenschaften*. The former is based on abstract explanation and the latter is rooted in an empathetic understanding of the everyday experiences of people in specific settings, as it is the case for BACEs being studied. The underlining concept of this approach is that researchers must learn the personal reasons or motives that shape a person's internal feelings and guide decisions to act in particular ways.

3.3 Adopted Techniques for this study

The research methodology and design employed in this study as a whole comprises three distinct stages;

1. Exploratory study;
2. Quantitative analysis of a large secondary data set;
3. Qualitative analysis of primary research (interview data)

Stage I: Exploratory study

A pilot study was conducted in 2007 as part of the MSc Research Methods programme. The focus of the pilot research was to evaluate the characteristic attributes, human capital and attitudes of BACE owner managers, concerning accessing business finance from formal sources. A qualitative approach was adopted, employing semi-structured in-depth interviews. The exploratory study involved six purposefully selected Black African and Caribbean business owners that were running their own business or planning to set up one. Two high street bank managers who were responsible for processing business loan applications and a London Development Agency (LDA) executive (whose role had a direct bearing on policy development) were interviewed.

Stage II: Quantitative Data: Analysing Secondary Data

Data from the 2006 and 2007 London Annual Business Surveys (LABS) was obtained from the LDA and responses analysed to those questions relating to access to finance, investment and various business characteristics. The importance for using the LABS was that it differentiated between businesses on the basis of their ethnicity, including Black businesses. The LABS survey of private sector businesses was undertaken annually by the LDA from 2003 until 2007. The survey covers all types of businesses in terms of size, sectors and organisation type (including, sole-traders, family-owned businesses, franchises, and social enterprises). About 4,000 businesses in London were interviewed each year.

The LABS questionnaire for the years studied comprised 78 questions, but the analysis for this research focused on those questions concerning the following issues: business profiles; investment and access to finance; priorities, problems, and constraints on businesses; business practice and advice and management competencies. This afforded the researcher an opportunity to explore, describe, compare and examine relationships and trends within the LABS 2007 data analysis.

Stage III: Qualitative Data - Analysing Interview Data/Primary Research

Primary data was obtained using, semi-structured interviews from the purposely selected respondents/participants that were relevant to the research questions and objectives. Three principal participant categories were purposely established (the BACE owner managers, loan processing bank managers and business support and advise providers: some secondary data were obtained from CEEDR; interviews with some 'third sector business support advisers').

Respondents were engaged on a one to one basis over a two and half year period on the field. In the semi-structured questions was a list of themes which were shaped around the 5 core research questions detailed in chapter one, which were subdivided into sub-themes and used as prompts. The prompts varied from interview to interview, based on the respondents position on the issues being investigated. The nature of the qualitative data collected had implications for its analysis (Chapter 5 & 6). During the analysis, the non-standardised and complex nature of the data that were collected during the field work was grouped into categories before they could be meaningfully analysed.

These data were used not only to reveal and understand the 'what' and 'how' BACEs behave when it comes to accessing business finance from formal sources but also places a degree of emphasis on exploring the 'why' which is the added value to the body of knowledge. The non-standardised interview data, were audio-recorded (where the respondent allowed for this, while many felt uncomfortable about being recorded, but agreed for notes to be taken) and subsequently transcribed, that is, reproduced as a written (word-processed) account using the actual words used by the respondents and the researcher endeavoured to capture the tone in which it was said. One of the major challenges of transcribing the interviews was the time invested for transcribing the audio-recordings. Qualitative interviews with the following were conducted between the 2009 spring through the autumn of 2011:

(a) BACE owner managers (i.e. 'demand side'); This involved 30 face-to-face, semi structured interviews with a sample of BACE owner managers with a view to evaluating and analysing the significance and impact of the different aspects of human capital on the difficulties they face accessing business finance from external sources. The basis for selection of respondents was based on a number of sources: contacts from the field work and sign-posting from such contacts following the pilot study of 2007. There were no formal sources that could have been used to select a list.

A purposely selected list of BACEs was carefully matched with the special interests for the research objectives. The impact and relevance of the *human capital* of the BACE owner managers in accessing external finance was pivotal to this study, therefore it was felt that the participants required needed to be purposely selected. The selection of respondents is based on a 'nonprobability sampling', which means that the purposely selected respondents were carefully selected to focus on a small number of cases that are especially informative and relevant to the research investigations. The researcher uses different interconnected networks of contacts and organisations in the field to locate the respondents. Some judgement was made to select a fair representation to satisfy some of the issues under investigation; for example the selection parameters (BACEs) were characterised and grouped by:

- 1) Educational attainment
- 2) Business experience/sector
- 3) Generational feature
- 4) Gender mix

(b) Bank managers (i.e. supply side); Face-to-face in-depth interviews with five purposely selected high street bank managers in London. A desk-top research of listed UK High Street banks in London offered a list of twenty-two (22) banks to choose from. About a dozen were approached, and five (5) agreed to participate

in the case studies. The five were the top British owned banks (apart from Santander, who at the time was a British owned bank).

Selection of the loan managers were purposely selected (same basis for selecting the BACEs), to ensure that the representation was not random. The profiles of the loans managers are shown in table 6.1 in the appendix section.

The ages were in the range of 25-35 (2 respondents); 36-45 (1 respondent) and 46-55 (2 respondents). The gender balance was on a 2:3 (Male: Female) whilst the ethnicity of the respondents included two Asians and 3 White managers. Incidentally, the effort to select a BACE loan manager in the London Local Authorities (LA) was futile. The LA's from which the loan managers were selected included Haringey, Southwark, Enfield, Brent and Lambeth. A conscious decision to focus in some of the 'ethnic enclaves' highlighted in chapter 2 was the reason for selecting some of the London inner-city areas where BACEs had higher business concentrations.

The objectives were to investigate the knowledge, attitudes and experiences of the selected bank managers in dealing with BACE clients and also to probe into the practices of making business loan decisions and the criteria adopted in dealing with applications. The interviews also aimed to ask bank managers about whether they thought BACEs faced particular difficulties and barriers in accessing bank finance.

(c) Business support providers (i.e. 'intermediaries'); Face-to-face in-depth interviews with six officers purposely selected within business support agencies (both public and voluntary sectors) to BACE groups specifically and EMBs in general. The list was obtained from the Centre for Enterprise and Economic Development Research (CEEDR) of the Middlesex University Business School. The purpose was to identify possible gaps in support provisions and to assess the relevance of the type of support offered to the particular needs of BACEs. Also, this would help identify the policy implications of any finance gaps identified in the study.

Field Work Considerations (intermediaries):

1. In-depth interviews with a senior LDA official- The officer interviewed was the most senior officer responsible for the aspects being researched at the time
2. Focused In-Depth interviews with selected 'Enterprise Support Agencies'.
3. Secondary data was obtained from the Centre for Enterprise and Economic Development Research (CEEDR) – these were questionnaires for enterprise agencies conducted in 2008 involving in-depth interviews with selected voluntary sector business support organisations in London.

The following enterprise agencies reviewed includes:

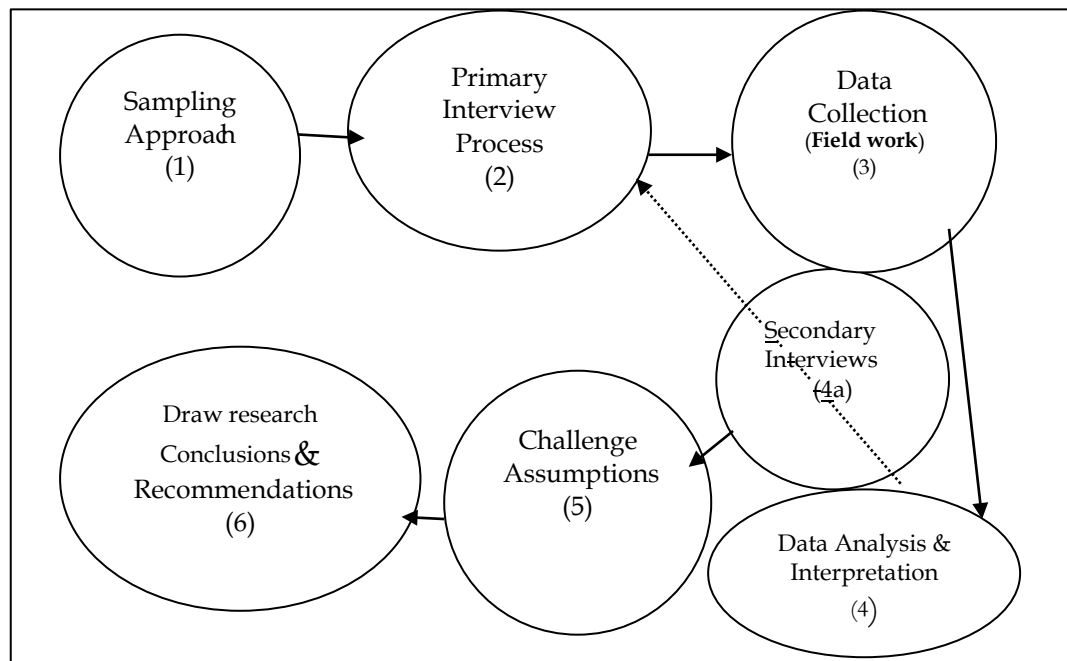
- a. Enterprise Agencies (Desk Top Review):
 - i. Brent Business Venture (BBV)
 - ii. African Caribbean Business Support (ACBS)
 - iii. East London Small Business Centre (ELSBC)
 - iv. African Caribbean Business Network (ACBN)
- b. Enterprise Agencies (Telephone Interviews)
 - i. Haringey Business Development Agency (HBDA)
 - ii. Portebello Business Centre (PBC)
 - iii. Croydon Business Venture (CBV)

3.4 Design Considerations & Process Map

The logical question for designing the field work for this study was to identify and substantiate the most suitable (or combination) techniques to enable the author obtain primary data that best address the research questions set.

Respondent selection (sampling), negotiating access, collection and management of empirical data, ethical issues, limitations and contingency plans were some practical considerations addressed as part of the research design. These processes are discussed separately in the next sub-sections. Figure 3 below is a process map detailing the specific aspects for the empirical work and the respective components discussed separately.

Figure 5: Research process: path model



(Source: Authors' - 2007)

Figure 5 above, is a map route of the identified processes or aspects for the empirical study. The framework was guided by the various stages adopted, showing how the various aspects related.

3.4.1 Participant Selection and Recruitment Process

The selection considerations made for this study were based on a number of factors including cost, time and relevance to the research objectives and anticipated outcomes for the research questions set. The principal methodology preferred for this study applied a *qualitative* dimension (even though, some quantitative approaches were employed, simply to have a basis to help focus the research questions – secondary data analysis of the LABS 2006/2007).

The sampling approach mode was based on a 'quota' system, a non-probability sampling technique that was based on the judgement of the researcher. The decision was to create a strata of 4 key categories (qualification, generational, gender and type of business) as these were the aspects of interest to this study. Once the 'quotas' have been set, the researcher then actively sought to establish contacts via professional contacts, snowballing, referrals and other informal method of finding participants that 'fit' the set quotas. A total of about 36 contacts were made of which 30 participants were selected based on the quotas

set. In some cases, preliminary (informal) discussions were held to filter appropriateness for the quota framework.

The BACE owner managers selected needed to fit the parameters set by the research aims and objectives with a view to answering the research questions. It was therefore necessary to apply a *purposive sampling* technique to select the respondents for the in-depth interviews, which focused on a small number of BACEs - 30 cases; whilst this is not a representative population of BACEs in London, 30 cases purposely selected across the various lines of enquiry for this research provides some useful indication based on quota selections -type and levels of qualification attained, age, generation and ethnicity. Majority of the cases were London based entrepreneurs (with the exemption of 1 case who moved to the midlands during the course of the field work). There was a larger representation from the 'ethnic enclaves' spread across some of the inner London Boroughs characterised by marginalised ethnic communities: Lambeth, Southwark, Lewisham, Newham and Brent. The logic behind these targeted geographical locations was to have participants that had a connection with the research questions under investigation.

Part of the research questions was to explore the impact and or relevance of BACE's human capital in terms of relevant qualifications; experience and usage of support services which influence the chances of successfully accessing external finance. In order to find answers to this specific question, the selection for the BACE owner managers were based on a set quota. However, it is worth noting that unlike a stratified sample, the sampling of the purposely selected individuals is not carried out randomly, since the final selection of the BACE owner managers was targeted by the interviewer. The quota considered three key grouping; one group comprised of respondents with relevant postgraduate (up to masters and above) level in a recognised management and/or finance degree and has run a business for over three years or more.

The second group comprised of BACE owner managers with lesser degrees (degrees from a non-finance/business management field, at first degree level or less). The logic for this quota grouping of respondents is a systematic choice of sampling technique which is dependent on the feasibility and sensibility of

collecting data to answer the specific question(s) and to address the objectives of the research. In essence, this technique provides the opportunity to carefully reach difficult-to-identify groups in a wider population. The resource of the purposive sampling list was gathered from existing contacts; snowballing network; and via other web-based directories.

One of the main challenges for filling the quota has to do with the values of the researcher, having being embedded in the research, therefore, a degree of bias in selection of participants may be prone to questioning. Also, because the choice of respondent is left to the interviewer, the proponents of probability sampling argue that a quota sample cannot be representative. Secondly, in quota sampling, the samples have not been chosen randomly, which makes it impossible to determine the possible sampling error. In the case that BACEs are somewhat difficult to access means that selected participants may be biased to an extent. But the purposive nature of the identified 30 participants selected does provide a 'fit' into the criteria/characteristics being investigated was deemed appropriate within a qualitative methodology. It is undoubtedly cheaper and quicker than interview surveys on a comparably small probability sample, as it is in the case of this study.

3.4.2 Data Gathering & Reliability

This sub-section looks at the justification of the three staged technique (as itemised in section 3.2 earlier) for gathering qualitative data which is an original approach to help drill down from the tripartite investigative perspectives (the demand, supply and intermediary participants). This stage allowed the researcher generate 'qualitative data' and then triangulate findings in a way that help explain and discuss research conclusions. The approach adopted a non-standardised one-to-one interview with the BACE owner manager, where a list of semi-structured and detailed questions was asked. The interview with each respondent varied; based on the themes and responses they gave, leading to prompts that helped obtain detailed and useful information from their experiences and beliefs.

The nature of the questions, prompts and the ensuing discussions required that the interview data needed to be recorded (with the respondents permission) by audio-recording (in some cases where the respondent agreed to this) the conversations and/or notes were also recorded. There were a number of *benefits* to the use of this non-standardised, semi-structured interview style: firstly, it suited the purpose of this research which was seen as *exploratory* and secondly; the information collected were useful for *explanatory purposes* – finding explanations for generalisations and assumptions.

Essentially, where it was necessary to understand the reasons for the decisions that the participants have to take, or to understand the reasons for their attitudes and opinions, the best method for achieving this was by conducting qualitative interviews. This technique also affords the researcher (interviewer) an opportunity to hear oneself ‘thinking aloud’ about issues that may not have been previously considered. The rich and detailed set of data collected were then analysed using *content analysis* technique.

Another key benefit of this interview technique is the significance of establishing personal contact rather than the use of a questionnaire. The interview provided the respondents the opportunity to reflect and express themselves on events, experiences and beliefs rather than needing to write this down. Healey (1991: 206) also makes the point that ‘the interviewer has more control over who answers the questions’ in comparison with a questionnaire, which may be passed from one person to another.

3.4.3 Data Quality Issues

Some considerations were given to the reliability of data obtained and certain ‘interviewer behaviours’ were effectively managed to reduce and or control forms of bias: listening and being very attentive to what the BACE owner manager was saying or even not saying (by observing body language). The lack of standardisation in this type of interviews may have led to concerns about *reliability* (Easterbysmith *et al.*, 2002; Healey and Rawlinson, 1994). It is possible that the researcher/interviewer may have inadvertently presented own beliefs

through the questions asked; the manner or sequence in which they were asked. On the other hand, there is also a small likelihood of the interviewee or response bias to have occurred as a result. This type may have been caused by perceptions about the interviewer, as referred to previously, or in relation to perceived interviewer bias. These problems of bias are inherent of this method and are largely that of subjectivity and communication dynamics, nonetheless, efforts were made to control occurrence of these limitations on the data quality. These possible limitations were best managed by the *approach* and *style* of the interviewer, given the interviewee ample freedom to express themselves freely (Ghauri and Gronhaug, 2005; Healey and Rawlinson, 1994; Robson, 2002) without intrusion and undue pressure by the researcher.

The control and/or management of the limitations and reliability of the adopted methods ensured that, the findings derived from using the non-standardised research technique, were not necessarily intended for replication. Since the findings reflect reality at the time the research was conducted, in a situation which may be subject to change (Marshall and Rossman, 1999). The possibility for other researchers to come up with similar findings has a significant likelihood, if the research is conducted under the same conditions. But of course, social behaviour and perceptions constantly change with the changing socio-political environment. For the purpose of this study, the researcher made and retains notes relating to the design, the reasons underpinning the choice of strategies adopted, methods chosen and data collected on the field (empirical work/interview transcripts/notes etc.).

3.5 Analytical Approach

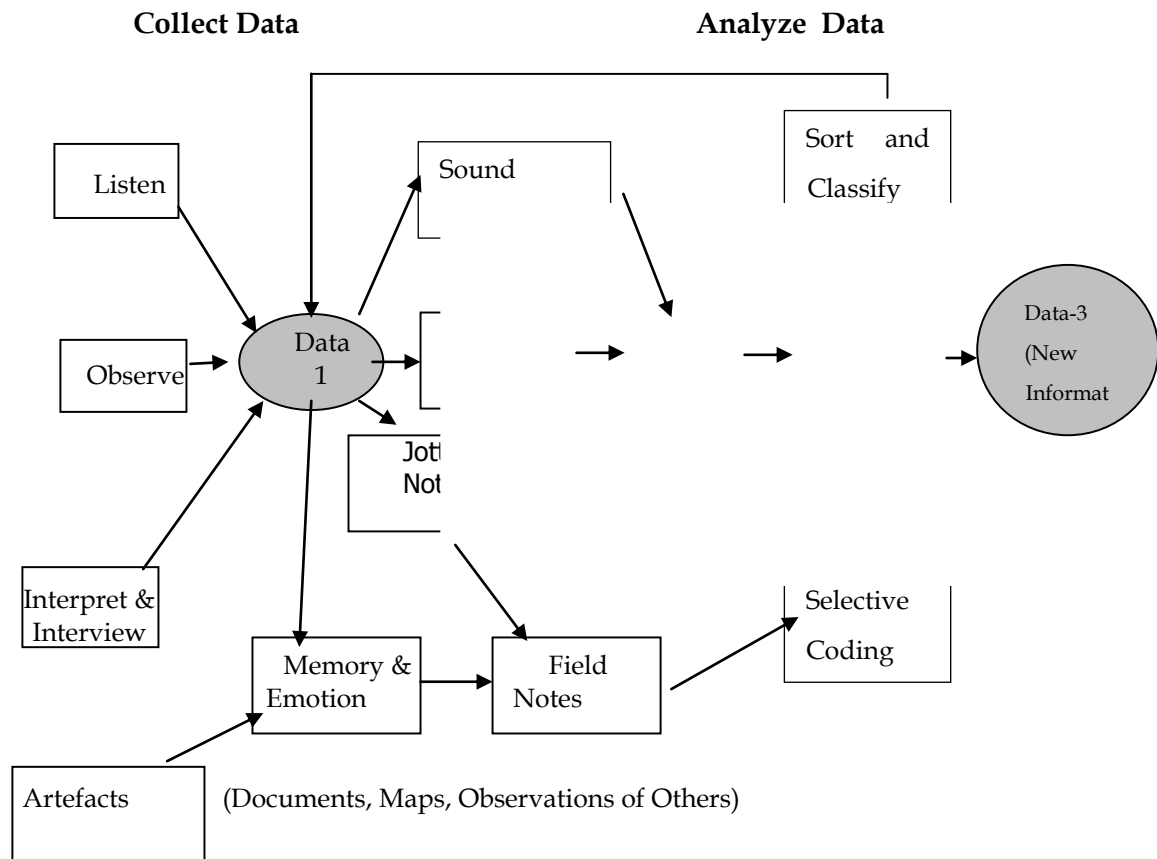
Content Analysis: The approach adopted involved a systematic coding and grouping of themes that were traceable through the transcripts. Qualitative data refers to all non-numeric data or data that is not quantified and can be a product of all research strategies. It can range from a short list of responses to more complex data such as transcripts of in-depth interviews or entire policy framework/documents. For this approach to be useful the empirical data

collected needed to be analysed and the meanings understood. Responses relating to beliefs, perceptions and experiences were abstract events and could not be counted, therefore, a process of *grouping* and *coding* unique themes was the most appropriate method of analysing the responses collected during the interviews.

This approach is generally referred to as *content analysis or narrative analysis*. Miles et al., (1994) describes qualitative coding as 'tags' or 'labels' for assigning units of meaning to the descriptive or inferential information compiled during a field study. Narrative analysis is broadly defined as an account of an experience that is told in a sequenced way, indicating a flow of related events (from one or several respondents), that had been taken together and are significant for the narrator (the participant/respondent in this case the BACE owner manager) and convey meanings to the researcher/interviewer (Coffey and Atkinson, 1996). Alternative approaches employed for processing the secondary data (LABS 2007) obtained was the use of computer aided data analysis software - SPSS.

Figure (6) below, is a process map for handling qualitative data and the various components that guided the field work of this study.

Figure 6: Interactive model for data management



Source: Adapted from Ellen (1984a: 214)

Data in Field Research (Data 1 = Raw sense data, experiences of researchers; Data 2 = Recorded data, physical record of experiences; Data 3 = Selected, processed data in a final report)

3.6 Ethical Issues

Ethical considerations were made throughout the various stages of the planning of this research (planning and strategy development, seeking access to respondents, collection, and analysis). In the context of this research, ethics refer to the appropriateness of the researchers' behaviour in relation to the rights of those who become the subjects of this study – the BACEs, banks and intermediaries.

Blumberg *et al.*, (2005:92) defines ethics as the 'moral principles, norms or standards of behaviour and our relationships with others'. In research terms, this relates to how the researcher formulates and clarifies the research topic,

design the research and gain access, collect data, process and store data, analyse data and write up the research findings in a moral and responsible way. Issues such as *access* and *consent* are also essential considerations embraced. For example, where a respondent agrees to participate in a particular data collection method, this does not necessarily imply consent about the way in which the data provided are subsequently used. Clearly, the assurances that the researcher provided the respondent about *anonymity* and *confidentiality* helped to develop an understanding of the nature of the consent agreed. For example, many of the owner managers interviewed preferred not to be recorded, but agreed for the researcher to take notes of the discussions.

For the purpose of this research, the author ensures that the way this research is designed is methodologically sound and morally defensible to all those who were involved.

3.7 Negotiating Access

Considerable thought was also given to the strategies considered for negotiating access and the ethical concerns that could arise in relation to this aspect. One of the specific barriers encountered was that of accessing and evaluating documentary data relating to business loans application (bank loan processing) as the interviewed bank or business development manager declined discussing these aspects and did not agree for the researcher to inspect any paper work for obvious reasons of confidentiality and data protection. Hypothetical case scenarios were used to attempt to get a fairly detailed experience of processes involved in the loans application assessments and challenges the banks face.

The economic context of the '*Credit crunch*' at the time of this research and the subsequent tight controls posed a significant challenge for accessing data from the 'supply side' (High Street banks). Therefore, paying careful attention to the researcher's approach to gaining access to prospective organisations identified; the data, or even the gatekeeper (the key contact) that had the authority to authorise access (Stockport & Kakabadse, 1994; Ekanem, 2002) was a challenge.

Two access levels were considered, the first and key access level was the initial *physical access*, which had to do with identifying the selective participants for the interviews. Gummesson (2000) suggests that gaining access might be difficult for a number of reasons: firstly, the lack of perceived value in relation to the research being undertaken or the researcher; secondly, the nature of the topic because of its potential sensitivity, or because of concerns about the confidentiality of the information that would be required and thirdly, perceptions about the researchers' credibility and doubts about the researcher's competence and approach (this aspect has been discussed in some depth earlier).

The second access level is the *cognitive access* (Gummesson, 2000) which refers to the ability to utilise good researchers' personal and interpersonal skills to conduct the interviews effectively, in a way that appropriate answers to the research questions can be obtained without pressure. Therefore, simply gaining physical access to the participant is not sufficient, the researcher had to utilise effective communication, relationship and interviewing skills

3.8 Summary

This research methodology choice (the 'mixed approach' by virtue of the use of both qualitative and quantitative data sources) best fit the research objectives in a way that helped to approach the research topic from different perspectives, i.e. interviewing both BACE owner managers and the finance providers. This methodology approach builds on other methodological choices and approaches used in other research of similar context. Some of the limitations have been noted and the conscious efforts by the researcher to mitigate these limitations have been identified.

Having argued that the mixed approach presents builds on other approaches, the position is not to claim that a multi-strategy research is superior to research that employs a single research strategy. One of the logic for this mixed approach is the possibility to triangulate the results of the findings from the different agents (respondent groups) employing a method associated with one research

strategy, cross-checked against the results of another strategy. Whilst this approach gives this research an original status, it is also an adaptation of the argument by writers like Webb et al., (1966) that confidence in the findings derived from a study using a quantitative research strategy can be enhanced by using more than one way of measuring a concept. For example, in their longitudinal study of *culture* in a governmental organisation in the USA, Zamanou and Glaser (1994) collected similar types of data, using different (quantitative and qualitative) methods to examine and analyse different aspects and perspectives of organisational behaviours.

CHAPTER 4: SECONDARY DATA ANALYSIS

4.1 Introduction

This chapter presents the findings and analysis of the 2007 data set of the last London Annual Business Survey (LABS). This review compares some of the findings and interpretations of the preceding years (2003 – 2006); as it relates to the relevant aspects of study. LABS provided a unique source of data, based on a series of large-scale business surveys over a 5 year period, which included data relating to obtaining finance and, most importantly, enabled comparison between businesses run by entrepreneurs from different ethnic groups. It does help the researcher to answer some basic questions about the extent to which Black businesses sought external finance and how successful they were in doing so (compared to other ethnic groups including white owned businesses. The LABS is the annual survey of private sector businesses in

London that was undertaken by the London Development Agency and Business Link 4 London (BL4L) since 2003 and the last was in 2007. The survey covers all types of private sector businesses/companies that are incorporated in London and subject to Company law. It is a telephone survey which reaches about 5,600 private enterprises (employing at least one person). The survey findings are based on six ethnic categories including Black-owned businesses and provide a rich database for analysis as part of this research. The approach adopted in this secondary data analysis was to compare black ethnic categories with white businesses with regards to:

- significance of 'human capital' in terms of qualification and management practices/decision making of the owner managers of the firms surveyed,
- types of business finance approached and barriers faced, □
Use and effectiveness of business support

4.2 Objectives of the LABS Programme

The objectives of the annual surveys were to:

1. collect indicators of the performance of private sector businesses in London , to allow the factors that influence business performance to be analysed, and assist in the development of LDA (defunct) policies and procedures
2. analyse the impact of London's physical and social infrastructure on businesses
3. identify issues faced by businesses where help and support may be beneficial
4. monitor the change in these factors over time

4.3 Presentation Approach & Methodology

This analysis and interpretation of the LABS data is predominantly based on the published findings of the 2006 LABS result and the 2007 raw data that was analysed using basic SPSS statistical presentations (descriptive & comparative graphs/charts). This was done to explore how the published results (LABS 2006) compared to the 2007 results. Some inferences were made based on outputs of frequencies and percentages generated. **Four** main themes which form part of the key research objectives of this study were the focus. The published LABS 2006 survey contained 78 questions in total covering 9 key areas including the following:

- Business profile/ Workforce
- Turnover, profit and productivity
- **Investment and access to finance**
- Sales and purchasing
- Priorities, problems, and constraints on businesses, and the geographical spread of customers and suppliers
- Information technology and innovation
- Research and collaboration
- Business practices and advice
- Management competencies

The three essential (of the four) key areas relevant to this study and a total of 19 (of the 78) questions in the LABS (2007) formed the subject of focus. These were summarized into three themes for clarity:

1. **Characteristic profile of the owner managers of the relevant ethnic categories being investigated** – this looked at the different aspects of existing levels of ‘human capital’ of the owner managers in terms of qualifications (not the specific type or level), experiences and sector of business which influence access to external finance.
2. **Experiences and attitudes relating to access to finance** – The experiences and attitudes of the BACE owner managers was considered as impacting on various characteristics, choices or behaviours; investment decisions they make; the reasons cited as problems they face approaching (or not approaching) external sources of finance. Series of questions in the survey questionnaires focus on these themes.
3. **The use of business advice** – The literature (Dhaliwal, 2006) suggests that some BACEs underutilise the full range of business support services; for those who do, advice received does not meet the specific requirements of BACEs. The LABS 2007 questionnaire looks at the practices and usage of advice agencies in some detail. Some of the specific questions asked in the surveys look at the use of external organisations for advice; whether professional advice services were paid for; how satisfied the businesses were with the advice received and the relevance of the advice to their specific needs.

The LABS annual survey reports were structured into three core parts. The first part looks at the unique characteristics of London businesses in terms of size, sector, ownership and workforce; the second part looks at the economic performance of businesses in London and the third part focuses on factors affecting business performance in London and how businesses operate. Part 3 of the published LABS reports looks at the barriers and enablers affecting businesses, investment and access to finance; management and planning approaches of the owner managers and business information and advice

seeking activities. For the first time, the 2007 LABS result identified *government regulations* as the number one problem/constraint affecting businesses in London, shifting focus slightly away from access to finance which scored as the highest ranked in the 2006 and previous surveys (2004, 2005).

The **methodology** adopted in this secondary analysis of published reports is a detailed *desk top review* of the 2006 LABS report and the 2007 LABS dataset from which relevant comparisons with the previous year's surveys were made. The result of six broad ethnicity categories were analysed based on the results obtained from the surveys. The categories (Selected London Regions: west, south, central, north and east) included: White; Black, Asian, Mixed; Chinese and Refused. It was possible to compare the results of weighted Black owner managers responses to the other EMB groups (particularly the Asian categories) and the white categories which served as a control group for discussion. Tables were used to present the data and discussions of the key findings follow.

The **data source** was a combination of the LDA summary findings of the LABS 2006 and the raw data of the LABS 2007 annual surveys. The 'Black ethnic group' referred to Black African and Caribbean owner managers and therefore corresponded with the focus of this study. The review of the 2007 LABS focused on those questions relevant to this research; BACEs and problems faced in accessing finance from formal sources.

4.4 LABS Result Analysis

This LABS 2006 analysis is presented as summary of the results published by the LDA as it was impossible to analyse the actual responses of the surveys. The alternative approach employed was to analyse the 2007 LABS data, using basic SPSS and the adjusted outputs- predominantly frequencies and percentages. To do this, a preliminary 'data clean-up' was conducted using the SPSS package to label and code the data from the six broad ethnicity categories. The data processing tasks carried out were two-fold:

Firstly, the resultant population sampled 'N' (all businesses that participated in the surveys minus the missing data (those referred to as 'refused/don't know/blank responses) was calculated. Therefore the actual value for 'N' is

referred to as '**adjusted value**' based on the six broad ethnicity categories surveyed (LABS, 2007). Table (4) is the rounded-off frequencies referred to as adjusted values (rogue results had been discounted).

It was quite difficult to rely on/or use the population total '**N**' in the raw data obtained from the 2007 LABS dataset. This was because the 'missing data' were not readily identifiable. Table (4) was generated from SPSS; labelling the variables ('zero' to 'five') this was allocated to the five main ethnicity categories and the sixth label assigned to the 'refused/don't know' category). The reason for this was to remove the '**outliers**' which may skew the results. In other words, table (4) is the treated result generated from the LABS 2007 dataset to make some sense of the totals, using 'frequencies'.

Table 4: Broad Ethnicity Frequency Statistics – Rounded Variables (SPSS Output)

Broad Ethnicity Frequency Statistics – Rounded Variables (SPSS Output)					
Broad Ethnicity Categories					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	White	2918	64.4	64.5	64.5
	Black	138	3.0	3.0	67.5
	Asian	405	8.9	8.9	76.5
	Mixed	44	1.0	1.0	77.4
	Other / Chinese	90	2.0	2.0	79.4
	Refused / don't know	932	20.6	20.6	100.0
	Total	4527	99.9	100.0	
Missing	System	5	.1		
Total		4532	100.0		

Valid/adjusted 'N' = 3595 (4527 – 937)

N' = **2918** for the white businesses analysed

'N' = **138** for the valid Black-owned businesses analysed

Source: LABS 2007 –data file

Notes:

Valid/adjusted 'N' = 2595: A total of 4527 responses are valid and this was used as 'N' for the purpose of the discussions and inferences in this review report. For example:

'N' = **2918** for the white businesses analysed and 'N' = **138** for the valid Black owned businesses analysed. A total of **932** responses were either **refused or don't**

know whilst 5 counts recorded as 'error/missing system', again these were discounted from the total population.

'Adjusted' values = the outliers, missing/blank responses which has been removed from the total, leaving a resultant actual value – questionnaires that have been fully completed. Missing Systems relates to numeric missing data in this context- values automatically recognized as missing by SPSS. The understanding here is that the system (SPSS) simply handles the missing values by omitting the counts in its analysis. For example, the 'N' value discounts all missing value from the total. The problem however is that it is difficult to identify those responses in the categories being analysed that were blank/did not respond to the questions asked.

Missing data: the discounted responses pose a significant limitation as it is likely that a significant number of this may have included 'Black owned' businesses (that declined answering some of the questions), hence skewing the resultant totals. This is a clear indication of some of the 'limitation' of statistical approaches in the context of this research and hence the need to adopt complimentary approaches via qualitative methods.

4.4.1 Characteristics of BACEs

There were 349,513 businesses in London in 2006 (LABS, 2006) – all businesses, which accounted for about 3,266,117 people employed in the SME sector. Almost one in five of London's businesses were owned by ethnic minority communities (19.5%). This compared with almost one in three of London's population (29%) classified as being from ethnic minority communities in the 2001 census. From the rounded samples (95% significance level) surveyed, 4% were Black-owned compared to 3% in 2006. The survey also showed that Black-owned businesses made up a significantly higher proportion than average of small businesses in the consultancy and professional sectors. For example, the LABS 2006 analysis of breakdown of sector types showed that about 43% of Black-owned businesses surveyed were concentrated in these business sectors. It is possible that the data presented related to a 'cumulative data' for a sizeable proportion of small firms altogether, rather than just for Black businesses.

Because of the high number of cases which did not identify their 'ethnicity' (missing/incomplete responses, the findings about the concentration of Black businesses in the 'consultancy and professional' services may have been skewed). This appears to have been one of the limitations of the LABS data reviews adopting purely quantitative methods. The LABS 2007 results show that 38% of Black owned businesses was concentrated in the consultancy business and professional services sectors compared to 37% of all other EMBs surveyed in 2007. The survey result suggests that a significant proportion of the Black owned businesses operate within these sectors in proportions similar to the white groups surveyed. The LABS 2006 result indicated that Asian owner managers concentrated in retail and whole-sale goods trading which was one of the community based services within which they operated.

This may explain, in part, one of the reasons why Asian owned businesses have a stronger propensity to access sources of alternative finance (i.e. family or co-operative small loans) is probably due to their strong networks in terms of social capital. The (2003 - 2005) LABS records a slight decrease in ethnic minority business ownership in this period as the proportion of EMBs in the surveyed businesses was somewhat lower in these earlier surveys.

A closer look at the underlying (2007) LABS data showed that Black-owned businesses continued to rise since 2003 at a steady rate. It is not immediately clear from the data being analysed why this was the case, but the researchers' view was that people from ethnic minorities tend to enter into self-employment, because of the ceiling-effect in paid employment. However, some of the responses cited for setting up a business showed that a desire for independence or to be one's own boss was the most commonly cited reason (20.5%) for Black owned businesses. For some of the other categories in the EMB groups, such as the Chinese and Asian business owner managers, family business were passed on from generation to generation, 'being one own boss' may have not being the main reason for running a business.

4.4.2 Influence of Qualification and Management Practices

One of the main objectives of the empirical study was to explore how human capital (e.g. relevant qualifications and experience) influence BACEs' decisions to access external finance. Some specific responses to some of the questions asked in the LABS annual survey of 2007 (Q75a – 75d) around qualifications, training and experiences of Black owner managers showed the following:

Table 5: Owner managers with some form of qualification

TOTAL	white	Black	Asian	Mixed	Other	Refused
Un-weighted 'N' 4527	2918	138	405	44	90	886
% of those with Qualification	18%	50%	24%	32%	34%	20%

Source: LABS 2007 –Result Summary (Tab 273)

Table 5 above is a comparison of the respondents surveyed based on un-weighted samples of all establishments in London (LABS 2007). The table illustration simply shows the comparisons based on counted responses and percentages related to the proportions of the various ethnic categories. The key point was the high percentage (50% - about half of 138) of Black owner managers with a qualification compared with 18% of a significantly larger population (2918) of the white group. This is consistent with other research and supports the notion that BACEs record the highest proportion of academic qualification than their peers in the UK when compared like for like.

The fact that the data (Table 5) does not provide sufficient information on the types and level of qualifications attained, is not so much a limitations of overreliance on quantitative data, but the questions around qualification types and or levels were not asked. Perhaps, complementing the quantitative approach with some qualitative approach affords the researcher with the opportunity to ask specific questions to provide meaningful data, which in effect helps in drawing useful inferences.

4.4.3 Investment & Access to finance

The 2003 - 2007 LABS annual survey showed that problems in accessing finance has consistently been amongst the top five highly ranked barriers to investment and growth for London businesses generally (though, the ranking changed yearly). A close look at some of the underlying data reveals a number of interesting but inconclusive issues worth noting, some of these are looked at in this review, Access to finance and management decisions on investments were some of the key issues looked at.

The LABS 2006 survey analysis gave a detailed insight into some of the findings relating to the experiences of the six main ethnicity categories. The analysis showed that two thirds of all businesses seeking external finance were successful in their applications to banks. There were, however, some noticeable differences across ethnic groups. Nearly three quarters of white-owned businesses were successful in obtaining bank finance. This compares with fewer than three out of 10 Black-owned businesses and fewer than three out of five Asian-owned businesses.

In the preceding 4 years of the LABS annual surveys, the three main reasons cited by ALL categories, irrespective of ethnic category were: lack of collateral (45%); not being able to obtain a large enough loan (42%) and the lender not understanding the applicants' business needs (40%) – with more of the Black respondents citing the latter as the most frequently mentioned reason: LABS 2004, 2007). The LABS 2004 went further to separate 'barriers and enablers affecting business competition' from 'investment and access to finance'. For the former, availability of skilled employees, crime, transport and the cost of current premises were seen by businesses as their most significant problems. Access to finance was a much lesser issue when it comes to competition, this ranked as the fifth most significant problem in some of the surveys. It was also noted that, despite the qualification attainments of some Black-owned business owners, they were not adopting and utilising appropriate marketing strategies for launching new products/services.

The 2006 LABS report inferred that the Black owned businesses tend to operate in marginalised sectors and therefore may be operating in isolation compared to Asian-owned businesses which often have good social networks. Smaller businesses were less likely to source finance externally and typically invested less than average amounts of capital.

Size of the organisation rather than ethnic orientations was the key factors influencing capital investment. However, Black-owned businesses were much less likely to be successful in accessing bank finance compared to other ethnic groups. The reasons for this are not entirely clear by merely looking at statistical representations from the 2006 LABS results. In order to shed more light on the reasons for their lower success rate, the underlying data on 'access to finance' from the 2007 were looked at in some detail.

Table 6 compares the percentages of the 6 ethnic business categories surveyed in the investment range of less than £50,000 up to £500,000. It is not surprising to note that the Black owned category shows smaller averaged investments. The reason for this is varied and form part of the investigations of the empirical work.

Table 6: Capital investment at site in a 12 month period

		White	Black	Asian	Mixed	Other/ Chinese	Refused /don't know
Un-weighted	4527	2918	138	405	44	90	886
Total (All establishments)	355969	260376	12483	36581	5135	4459	35300
<£50K	252974	190102	10339	28833	3005	2147	17306
% proportion	71%	71%	83%	79%	59%	48%	49%
£50k-£100K	24808	17784	864	2237	254	1347	2083
% proportion	7%	7%	7%	6%	5%	30%	6%
£100K -£500K	11250	7415	320	1099	134	34	2196
% proportion	3%	3%	3%	3%	2%	*0%	20%
*Insignificant measures							
Source: 2007 LABS Dataset – Tab 93; (Grossed-up counts)							

Table 6 compares the proportions of capital investments that fell into particular investment size bands in a 12 month period (LABS 2007 dataset). The objective was to compute the percentages of businesses in each ethnic category that made investments in each of the investment size categories. The significant figures used to compute the percentages was to divide the total (grossed up) in the three investment size categories by the total counts in all establishments. This trend is not an unusual pattern irrespective of the business ethnicity in a competitive financial market and conditions, larger businesses tend to have a much greater investment capacity than small and medium enterprises.

When the businesses investing up to £100,000 and above were analysed, only 3 % of the Black category invested that much. This is expected due to the size of micro businesses and appears to be consistent with other businesses of the same size of any ethnicity. From table 3, there were very little differences in the investment size categories between the EMBs and their white counterparts. Interestingly, the white and Black businesses recorded almost the same proportions of investment in the £50K – 100K and the £100K – 500K investment categories.

The researchers view is that the *Black* owned businesses invested as much as any other ethnic groups and little less than the white control group, which was quite expected based on ‘size’ of the firms rather than ethnicity. The alternative arguments could have arisen if data were available to compare the individual category success rates of investments as the LABS survey did not capture these via quantitative surveys. It is hoped that the empirical work for this study would find some alternative and meaningful explanations to these possibilities. The inferences drawn from the LABS result does not, on its own, support the proposition that ethnicity of the owner manager is an influencing factor when Black business owners seek finance. But the inferences and interpretations tend to support the view that small businesses are more likely to experience difficulties when seeking finance. This agrees with the LABS 2004 findings that showed that *size* of the business rather than *ethnicity* may be a key factor predisposing businesses to accessing capital funds. The reason for this is purely economics rather than by personal attributes of the entrepreneurs.

4.4.4 Experiences and Attitudes (Relating to Access to Finance)

The difficulties for measuring perception have been discussed and referenced in the literature searches and subsequent field work in this research. The LABS 2007 data offered an opportunity to explore and analyse a number of variables for attempting to measure the experiences and ‘feel factor’ of BACEs approaching funding sources. This analysis considers the range of reasons/problems for:

- (a) the factors attributed to *discouraged actions* and *possible failures* of the businesses
 - (b) assessing the feel factor of the owner managers and possible reasons for this and
 - (c) evaluating the effectiveness and utilisation of business support
- The approach adopted for analysing the raw data was to select a number of questions asked in the survey that were relevant to this theme. *Frequencies* were run by the SPSS software to identify valid samples (i.e. valid responses of the total population): these did not include the missing/blank responses, and the Total white (Tw) and Total Black (Tb) responses were used for the comparatives. The results were then presented in tables that compared the results of the Black owned businesses and the white owned businesses. Discussions of the findings followed each table and summary headlines of the key themes highlighted. Eight (8) questions were selected and analysed;

Table 7: Whether respondents approached any external sources for investment or other finance in a period of 12 months

All Establishments N=355969	Total	White		Black	
	355969	260376		12483	
‘yes’	71705	49212	19%	5492	44%
‘No’	262163	200342	77%	6683	54%

Source: LABS 2007 (grossed up totals), (Unknown/refused counts discarded)

Table 7 shows that Black owned businesses (54%) did not approach external sources of investments or other finance, but a corresponding higher proportion of the white owned businesses (77%) didn't either. Perhaps, the dependence on quantitative data alone makes it difficult to explain how these findings come about, by merely reviewing statistics.

It is necessary to note that, if the 54% Black owned businesses did not approach any external sources of investment or other finance, as they may not have needed any, it is then impossible to know whether or not they would have been successful. There are two obvious lines of arguments; the first is that the Black owned businesses do not adequately seek formal sources of funding because they do not need it and the other dimension is the widely reported discouraged borrower's effects.

The research findings of the BBA, DTI, and Bank of England have concluded that there are disproportionate barriers faced by the Black owned businesses. The area needing further explanation is the possibility or need to explore if there is a relationship between the discouraged factors (business owners who did not feel they would succeed) and the business owners who actually approached the banks but failed in obtaining a business loan. An assumption for one of the possible reasons for the failures in obtaining business finance relates to types, sectors and sizes of the businesses rather than the entrepreneur's personal characteristics such as ethnicity. This is consistent with research which agree that sector is not a determining influence in this respect (SBS, 2001) and that size is a more dominant factor (Fraser, 2008) than ethnicity.

Table 8: Whether respondents experienced any problems in accessing external funding in the 12 month period

All Establishments N = 355969	Total	White		Black	
Total*	355969	260376		12483	
'yes'	44080	28910	11%	4033	32%
'No'	311105	230728	89%	8450	68%

Source: LABS 2007 *(grossed up totals/Unknown/refused counts discarded)

The 32% of the Black owned businesses which indicated that they experienced problems (Table 8) is significantly higher than the 11% of the white owned businesses, despite a relatively low respondent weighted count (4033 cases) compared to the 28,910 (weighted) white owned businesses. When the result in table 4 previously was considered, it was unclear why the variation is this significant; merely looking at the data does not offer much explanation as to the reasons behind this finding. A suggestion is that a higher proportion of the 44% that did approach a finance source may have failed to secure finance or that they may have secured insufficient amounts.

Table 9: Where respondents experienced problems

Seven (7) response options available, 3 were chosen for analysis:

(a) Cannot obtain large enough amount (b) Lack of asset collateral to guarantee loan (c) Lending organisations do not understand the needs of the organisations

	Total white (Tw)		Total Black (Tb)	
Totals*	28910	% proportion	4033	% proportion
(a)	12538	43%	2415	60%
(b)	11330	39%	2632	65%
(c)	13804	48%	2550	63%

Source: LABS 2007 (*grossed up)

Notes (Table 9):

The %'s are worked out by dividing the respondents who cited a reason (i.e. cannot obtain large enough amount) by the total counts of the corresponding category. For example: the % proportion of the Black businesses who cited (a) as the main problem is: $(2415/4033) \% = 59.8\%$

The significant observations in table 9 are that all three reasons analysed suggests the Black owned businesses appear to be more disadvantaged with significantly higher percentages across the three reasons. This is consistent with the themes that have been a presented in the literature (chapter two), but what is missing with these statistics is the lack of 'underlying' factors to support these results. It is anticipated that, the qualitative methods of in-depth interviews may offer alternative explanations.

Table 10: Types of external sources of finance approached in a 12 month period

Including:

(a) Banks (b) Leasing or hire purchase company (c) Equity partner/ venture capital (d) Loan from government agency

	Total white (Tw)		Total Black (Tb)	
Totals*	49212*	% proportion	5492*	% proportion
(a)	35646	72%	4768	87%
(b)	1595	3%	63	1%
(c)	2315	5%	95	2%
(d)	2275	5%	54	1%

(Source: LABS 2007)

*grossed up (the grossed up figures, rather than the actual counts offered the best chance to make some meaningful inferences)

Table 10 confirms that banks were the most approached source for external finance for businesses in London irrespective of the ethnicity of the business. However, it appears that a higher proportion of the black owned businesses that used external sources of finance relied on the banks (87% of Black owned businesses compared to 72% of their white counterparts). The implication for this may be that the Black business category tend to be over reliant on banks for finance and as suggested in literature (BoE, 2002), they do not explore alternative sources enough to increase chances of securing business finance. Whilst the same can be said of the white businesses, a small but significant proportion of them approached alternative sources.

The other point to be made is that the Black owned businesses might not have been aware of appropriate alternative sources that could have suited their needs. This may be attributed to the low human capital (in terms of financial education in this instance) for some of the owner managers. Alternatively, lack of confidence and/or the discouragement effect are possible reasons.

Table 11: Whether successful in gaining finance from sources approached

(a) Banks

(b) A Grant fund (e.g. Government grant)

(c) Credit Card

	Total white (Tw)				Total Black (Tb)			
Totals*	436*	% proportion			49*	% proportion		
		Yes	No	Unresolved		Yes	No	Unresolved
(a)		61%	21%	18%		49%	48%	3
(b)		28%	66%	6%		-	-	-
(c)		91%	8%	1%		100%	-	-

Source: LABS 2007 *un-weighted

(NB: The base figs. were the un-weighted data, the grossed up figures were not available)

Table 11 suggests that a significant proportion of Black owner managers were unsuccessful (48%, of which 3% had unresolved issues with the banks, but details were not available within the data set analysed) securing finance from three common sources approached compared to the 21% of the white owned control group that could not secure finance, this is in addition to the 18% who had unresolved issues in the period analysed. Interestingly, all the Black business owners sampled expressed total satisfaction in using credit cards as a finance alternative.

The risk of non-payment of credit cards, is an issue for this group, particularly as interest rates are higher than average for similar products. This implies that, there is a possibility for the group to fall into debt, resulting in adverse credit ratings. The table also suggest that Black owned businesses hardly access grant funding and reasons for this may be similar to those mentioned in the discussions for Table seven.

Table 12: Decisions and actions considered resulting from previous experiences including factors that led/influenced the business not to seek any external finance in the 12 month period

- (a) Do not want to take on too much risk or overextend the business
- (b) It's too expensive
- (c) The business does not like to take out loan
- (d) Felt if applied for business loan, could be turned down

	Total white (Tw)		Total Black (Tb)	
Totals *	189596*	% proportion	6627*	% proportion
(a)	109692	58%	4471	67%
(b)	72201	38%	3156	48%
(c)	108886	57%	2364	36%
(d)	12858	7%	905	14%

Source: LABS 2007

*grossed up (the 'actual counts for this table had an awful lot of 'missing data', hence the decision to use the 'grossed up' data, which were based on proportions of all categories analysed)

One key inference that can be made from Table 12 is that Black owned businesses are risk averse and indeed do not adequately seek business loans compared to the white owned control group. A high proportion of the Black business category (67%) said they did not like to take out loans compared to the 58% of the control group. The reason for this response is not evident from the data, but is supported by research (Ram & Deakins, 1996) which showed that African Caribbean Businesses (ACBs) have a particularly low propensity to seek bank finance at start-up, relying instead on personal savings and trade credit.

This same view is supported by the (CEEDR, 2000b) study of business issues and support needs of African Caribbean Businesses (ACB) in London. An

alternative view is the lack of special facilities or waivers – discretionary adjustments such as reduced collateral requirements offered by banks (such as HSBC) to South Asian customers (Focus Central London, 1999).

The other significant point is the proportion of Black businesses (14%) who did not access finance because of the ‘perception’ (feel factor) that they might be refused (i.e. the ‘discouraged borrower’ effect).

The limitation of these statistics (as in several earlier studies – Bank of England, 1999) is the inability to probe further to ascertain why the respondents felt the way they did toward seeking external finance. Even though, the LABS 2007 data offers the largest data sample possible, but the relatively small valid responses for the critical questions makes it difficult to give generalisations about the attitudes of the Black owned businesses without employing alternative methods for verifying these findings.

The empirical work during this study supports the view that the attitudes of the group manifest in their behaviours and actions, but there could be other variables which would emerge during the field work (but not available in the datasets analysed) as alternative explanations to why the Black business owner managers held particular attitudes about accessing external finance. For example, a possible reason could be that the BACE owner managers *felt* there was an element of negative stereotyping involved on the parts of bank managers, resulting in them not being taken seriously.

Table 13: External Organisation used for business advice in 12 months period

(a) An accountant (b) Bank manager (c) A solicitor (d) Another business owner (e)
Business link

	Total white (Tw)		Total Black (Tb)	
Totals *	260376*	% proportion	12483*	% proportion
(a)	42070	16%	2482	20%
(b)	16311	6%	1232	10%
(c)	13135	5%	339	3%
(d)	6228	2%	751	1%
(e)	10362	4%	1270	10%

Source: LABS 2007

(*grossed up base figs. used)

Table 13 suggests that businesses in London generally do not maximise available sources of business support services. The two groups compared use the accountant as their main source for business advice, this is not surprising as the finding is consistent with previous research on Ethnic Minority Businesses in general, indicating that they have a low propensity to use mainstream business support agencies. The data above also suggest that a very small proportion (6%) of white businesses approached bank managers for support, compared to the relatively higher (10%) for the Black businesses. This is notable because the proportion of respondents in the Black business category is significantly quite low (1,232 grossed up fig) compared to the white group (16,311 grossed up). This suggests that the Black owned businesses rely on their bank manager as a useful resource. There are a number of theories that have been suggested as possible reasons for the low take-up; one that has become noticeable in the empirical work undertaken is the *lack of information* and *awareness* of the existence of mainstream business support services. The absence of customised support services to meet the needs of the range of ethnic

groups has been widely reported (Dhaliwal, 2008; Ram et al., 2012). Another perspective is the lack of willingness to pay for professional services (not shown in the tables, but well documented in the literature review chapter). The Focus, 1999 study, one of the earlier researches into Black businesses in terms of access to finance also showed that Black owned businesses were far more likely to have contacted one of the various support agencies/organisations than their counterparts in other ethnic minority groups. This is supported by the proportion (10%) shown above who approached Business Link for advice compared to the very low (6%) uptake by the white businesses.

4.5 Summary

The review of the LABS reports (2003 – 2006; plus the analysis of the 2007 data set) present a number of interesting findings. The 2007 LABS used 78 questions in the survey questionnaire focused on nine (9) themes. The questions relating to ‘Investment and Access to Finance’ formed the basis and focus for analysis in this chapter. The key findings relevant to this study are presented in the tables in this chapter, whilst the key themes are detailed in the sub-sections. The questions selected for analysis were those that related to the objectives of this research which provides an alternative methodological perspective to complement the qualitative approaches adopted.

4.5.1 Influence of Qualification and Management Practices

Half of the (138) Black owner managers had a formal qualification compared with a quarter of a significantly larger population (2918) of their white counterparts. Owner managers of Black owned businesses generally have relatively higher qualifications than their counterparts from other ethnic categories, but the LABS survey questions do not drill down enough to identify the types and/or levels attained. Therefore, it is not possible to make a generalised claim to the validity and relevance of this factor to the chances of the businesses to access external finance. In-depth interviews would certainly

offer opportunities to obtain some detailed explanations and evidence to support this claim.

Further research is desired to separate perceptions from reality and perhaps, to show how relevant qualifications (types and levels) contribute to making judgement and presenting the business case for seeking external finance. The nature of the questions asked and the resulting responses do not make it possible to make much inference about the influence of the qualifications attained and its impact on the ability to access appropriate finance.

4.5.2 Capital Investments

Three investment size categories by the six (6) ethnic categories over a twelve month period were compared (Table 6). The three tiers were: <£50K, between £50 - £100K and £100 - £500K. The variations in the range of investment finance relates to the 'sizes' rather than ethnicity, smaller firms generally are unable to invest as much as the larger firms as expected.

From literature (chapter 2), there were some suggestions that one of the main determinant factors for successful investment and access to finance by SMEs is *size rather than ethnicity orientation*. For example, in 2006 over 40% of all businesses reported that, they had not been able to invest as much in capital over a 12 month of trading as they would have liked to, but still accessed some finance.

For these businesses, the key constraints on investment were market conditions (44%), a decrease in profitability (35%) and problems accessing external finance (33%) - LABS 2006. The Black-owned businesses had an overreliance on bank lenders and therefore underutilised the various alternative sources of finance, compared to the Asian-owned businesses. The key point here is the emphasis on 'perception' referred to as the 'feel factor' which comes through in a number of reviews, but the quantitative approach employed in the LABS work was unable to explore this concept further.

For example, there is a clear perception of refusals often nurtured by the Black owned businesses even before trying to apply for finance from formal sources

referred to as the 'discouraged borrower effect'. This further supports the view that some of the problems reported by the Black owned businesses can be largely attributed to 'attitudes' as one of the explanations. It is also evident that the Black owned businesses are less likely to take risks, hence limiting the scope to expand or grow their businesses compared to their peer EMB categories.

4.5.3 Experiences and Behaviour of Black Owned Business Owners

One of the key issues analysed in the 2007 LABS results was that of 'discouraged actions' and possible failures arising from this. When respondents were asked (Table 7) whether they approached any external source of finance for investment (notably from banks) in a twelve (12) month period, Black owned businesses (just over half of the respondents) indicated they did not approach external sources, but a corresponding higher proportion (three quarters) of their white counterparts didn't either.

This finding raised an interesting point which is inconsistent with literature because, Black owned businesses have been widely reported to be over-reliant on debt finance and less inclined to seeking alternative sources. The issue about 'discouraged borrowers' is very topical and relevant to this study. The review of statistical data does not provide clear reasons for 'behaviour' without complementing these findings with qualitative accounts, which is the originality for this research. The effect of the 'discouraged borrower' could not be generalised based on quantitative data alone (table 8), because, even the Black businesses (fairly even proportions with the white businesses) that experienced problems when they sought finance from banks did not indicate whether they were turned down or didn't apply at all.

Another significant point relates to the underutilisation of alternative sources of finance such as grants, social funds and other community focused funding initiatives. Table eight (8) supports this notion and one might think that the 'knowledge gap' for the owner managers about these alternative funding sources might be significant.

4.5.4 'Behaviours' and 'Attitudes' towards External Business Support Usage

The usage of business support services across the six ethnicity categories appears to be generally low and consistent with findings in literature. Businesses in general *do not* use the full range of business support services adequately; however, there are some variations in the sources approached by the respective ethnic categories analysed. A common observation (Tables 12 & 13) is that Black owned businesses are less inclined to seek business advice and are also less likely to invest in professional support services. Literature (Dhiwani, 2006) suggests that the likelihood of using external business advice amongst small firms tends to decrease with increased size, except for the very large businesses seeking expert support services.

The most popular sources of advice include: accountants, bank managers and solicitors, not in any particular order, but the use of accountants is consistent across all establishments because this is a statutory requirement. The interesting point noticeable amongst Asian and Chinese owned businesses is that they tend to rely on internal sources (family, similar organisation) as the preferred source of advice. It is not surprising though, because of the stronger community links they have compared to Black-owned businesses which often operate in isolation and within ethnic enclaves that have been well documented in the literature review. The LABS surveys however, did not provide enough data to establish whether there were particular gaps and reasons for the type(s) of business support utilised.

4.6 Limitations of the LABS Analysis

The LABS survey provides a valuable quantitative and to a lesser extent, some qualitative data that helps to further focus the research questions for this study. It did not adequately cover many components which could have probed into specific issues and evidence required to make generalisations. Some of the intrinsic weaknesses of the LABS data are that they are not sufficient for discerning underlying reasons or factors which influence cognitive behaviours

or attitudes. Relying solely on the LABS data does not help to 'explain' generalisations as insider accounts would.

Another major problem with the LABS raw data had to do with missing data and with the choice of certain data counts: weighted versus un-weighted counts. The approach for mitigating some of these difficulties was to purposely select a grossed up totals or an un-weighted total depending on the type of analysis desired. The choice and consistency of the counts type selected for discussions had significant fluctuations in the subsequent comments and inferences. Overall, the analysis of the LABS surveys helped in justifying the complementary qualitative methodology adopted for this study. This LABS analysis also supported many themes that emerged in the earlier scoping study and literature review searches and also helped the researcher focus some of the research questions and methodological considerations.

CHAPTER 5: BACE PERSPECTIVES: PRIMARY RESEARCH FINDINGS (1)

5.1 Introduction

This chapter presents and analyses the main findings from qualitative interviews with 30 BACE owner managers (referred to as the 'Demand Side'). The field work was carried out over a two and a half year period (between 2008 and 2011). The interviews (some were several interviews) of these BACE firms both complement and develop some of the key findings arising from the LABS analysis detailed in Chapter 4, enabling a more detailed examination of the attitudes and behaviours of BACEs with respect to access to finance. A semi-structured questionnaire was used (see appendix 2) and the notes/data obtained were the accounts of the respondents which formed the data obtained for analysis. Table 14 below shows the profiles of the 30 participant BACE owner managers including relevant variables used for the analysis.

Table 14: Interview Participants Profile

No.	BACE – Owner Manager.	Maximum Qualification Attained	Generation Gender Ethnicity	Notes
1	DD	MBA (Finance & Management)	2nd - Male/African	Professional Services Sector
2	FO	Bsc	2nd - Male/African	Cleaning Services
3	MA	Bsc	2nd - Male/African	Recruitment & Training
4	EW	Msc/Certified Assessor	1st - Female/ Caribbean	Training & Consultancy
5	BD	BA	2nd - Male/African	Printing
6	HB	GCSE	1st - Female/ Caribbean	Education
7	SW	Bsc	3rd - Female/ Caribbean	Nursery
8	MG	AL	3rd - Male/ Caribbean	Catering services
	FE	Msc	1 st - Male/African	Initial contact, declined Further Interviews.
10	AA	Msc	1st - Male/African	Transport Services

No.	BACE – Owner Manager.	Maximum Qualification Attained	Generation Gender Ethnicity	Notes
11	OT	Bsc	1st -Female/ Caribbean	Fashion retail
12	AA	Msc, IT Systems Certified	2nd - Male/African	Consultancy
13	TJ	AL	1st - Female/ Caribbean	Nursery
14	KA	Msc, MBE	1st - Male/African	Professional Services
15	NJ	Msc	1st - Male/African	Professional Services & Consultancy
16	AA	Msc	2nd - Male/ Caribbean	Initial Contact only (Recruitment)
17	AO	Msc	1st - Male/African	Property Services
18	AO	Msc	1st - Male/African	Professional/ ELearning
19	JG	MSc	2 nd Female/Caribbean	Training & Recruitment
20	BO	PhD	1st - Male/African	Advocacy & Training
21	KA	Msc	1st - Male/African	Media
22	RKM	Bsc	1st - Female/African	Training
23	AA	Msc	1st - Male/African	Consultancy & Training
24	BO	Msc	2nd - Male/African	Business /Personnel Development
25	EE	Msc/ Certified	2nd - Female/Caribbean	Services/training
26	SS	Bsc	2 nd - Female/African	Retail
27	SD	GCSE	3rd - Female/Caribbean	Hair & Beauty
28	JM	MPhil	1st - Male/African	Services
29	IA	MA	1 st - Male/African	Consultancy
30	OA	HND	1 st -Female African	Food Supply

The findings constitute a development of new evidence for explaining the barriers facing groups of BACEs. This also adds a new dimension to the research domain, in that they shed light on the business owners with emphasis on the level and scope of qualification attained as influencing factors which affect access to external finance. The main issues examined include evaluating the importance of the human capital and its contribution to the chances for accessing finance. The other aspect being examined includes evaluating the extent to which attitudes impact on the entrepreneurial success of owner managers. The last part of this section presents the findings about the awareness and usage of business support services and its effectiveness.

For the main study, 30 cases were purposely selected for in-depth interviews with a view to present them with a number of questions and attitude statements. The justification for in-depth interviews has been detailed in the methodology chapter. In the main, the researcher examines, in depth, certain features of the 30 purposely selected BACEs. The interviews were conducted over a period of about two years, collecting extensive data. Tables 14a & 14b below gives a snap shot of the background and characteristics of the 30 cases.

The basis and justifications for selecting the ‘purposeful list of respondents’ was detailed in Chapter 3. Some judgement was made to select a fair representation to satisfy the issues under investigation; for example, the selection parameters were characterised and grouped by:

- Educational attainment
- Business experience/sector
- Generational feature
- Gender mix

Table 15a: The BACE owner managers 'fit' into set quota parameters:

(Human Capital) Qualifications	Secured Finance		Notes
	Yes	No	
1 st Degree	3	2	The influence of human capital in terms of qualifications and experience of the BACE owner manager was one of the key objectives for this study. Though, some of the respondents who secured finance still felt they did not obtain enough or had applied many times before a small success achieved. The levels of qualification attained by ALL respondents are shown in Appendix 3
Pgd or over	14	1	
GCSE	5	0	
Vocational Qualification	1	2	
TOTAL CASES	23	5	2 cases had never sought finance

Table 15b: Generational & Gender Compositions of BACE owner managers/respondents interviewed

Generation	Male	Female	Notes
1 st	11	5	Largely immigrant BACEs
2 nd /3 rd	9	5	The 2 nd & 3 rd generations had similar characteristics – born and studied in the UK
TOTAL CASES	20	10	

Table 14 shows the range of business sectors within which the respondents operated. The schedule shows that a 'fair mix' of business sectors was sampled purposely for reasons already stated. There were however, more male respondents (20) selected as the female owner managers were fewer, many possible female respondents were running their businesses on a part time basis and most rarely sought finance. The reasons for this were discussed in Chapter

2, mainly because of family commitments and child care. There were more Black African owner managers (20) selected as much research (chapter 2 – cites numerous studies) suggests that this category of Black firm owners recorded

more ‘dissatisfactions’ when seeking finance from formal sources, hence the justification to select more respondents for investigation, compared to the (10) Black Caribbean owner managers.

Tables 15(a) & (b) show brief narratives of the 30 BACE owner manager respondents that were interviewed over a two and a half year period (winter of 2008 – winter 2011). The cases were identified by numbers (1 – 30) and the owner managers initials used for anonymity. The transcripts (selected transcripts also attached as appendix 3) contain extracts that were fed into the Nvivo project file as an ‘External Source’, with which some aspects of the emerging themes were analysed – analysing qualitative data quantitatively.

5.2 Research Objective 1: Influence of Human Capital on accessing external finance

	Research Question	Q1: Does the respondent agree (or otherwise) that their level/type of qualification and business experiences favour their ability to secure external finance?				
Nvivo8 Themes aggregation: All Interviews (30)	Significance	<i>The Nvivo software has been set to equate the ‘significance’ responses for all the transcripts as a function of the themes that were ‘dominant’ in the interview transcripts as having a positive effect on the chance or probability of the BACE to access business finance from formal sources. The determinant variable tested is the relevance of ‘Human Capital’ of the respondent to their chances of securing business finance. The labels are on a five point scale:</i>				
Human Capital Level/Knowledge Gap		Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Owner Managers (BACE)		2	16	2	6	4

Table 16a: Significance of Human Capital to securing finance

Source: Attitude Query (Nvivo outputs)

The responses that were tracked using the Nvivo software were texts and/or phrases such as:

I agree education matters.....

Not too sure..... (Neither Agree nor disagree)

Strongly disagree/ disagree totally about this.....

I don’t really think that professional qualification is a ‘do or die’ matter, but may be relevant as well....(neither agree nor disagree)

This method of 'query' helps to identify and apportion the degree of significance – meaning how many times the words were said to agree/disagree with the question being discussed during the interviews. It is possible to infer that 60% (18) of the BACEs interviewed believed (53% agreed; 7% strongly agreed) that the attainment of professional and relevant qualification and experience of the BACE do have a positive impact on the business owner manager's chances of accessing business finance. A number of respondents spoke along these lines:

"I could not agree more with this. In fact, I think it's a critical factor an underlining factor responsible for how BACEs make decisions and go about considering take-up of banking finance as this is a very red-tape process and a 'know-how' is desirable. I also think this is why many BACEs do not 'try' to access bank finance, because of the work entailed, such as business planning and writing a strategy/developing a detailed cash-flow for example." DD - 29/10/08

"I think that a relevant management qualification can only improve how you explore finance sources but ultimately, your experience + environment will play a big part in how you obtain finance.....I believe getting a qualification helps your profile in accessing finance. I do not think it is required to make a business successful. I think to a lender, it gives a professional impression of your business and you! "AA - 17/10/08

"I agree if the manager / owner don't have the knowledge it can create an information gap as understanding or capacity is less. This creates a disadvantage being a small firm requires a high level of knowledge, a diehard resilient spirit and good people skills. All these factors in my view encompass knowledge." EW - 20/11/08

These statements re-affirm the relevance attributed to the need for financial skills that has been documented as a gap for SMEs in general and not just for Black businesses (Scott, 2008; Hussain & Matlay, 2006).

A significant, but lesser proportion of the interviewees, 10 of them (33%) strongly disagreed/disagreed that the attainment of relevant qualification and/or experience was critical. Some of the cases looked at suggested that some banks tend to overlook the 'credence' of the business idea by focusing on presentation and lack of financial information such as cash flow:

"I really don't agree to an extent that having a relevant management degree is relevant..... from experience, I believe you have to have some form of formal education, i.e. to be literate and be able to understand the basics for looking after your business requirements..... The matter of qualification is a bias factor in this matter and I also think it depends on the nature of your business too...." BD - 4/12/08

Well, for me the blame is more leaning towards the banks rather than the BACEs who may be disadvantaged in a number of ways such as communication, low knowledge or skills to develop business plan and having collaterals. In cases where the business loan applicant has a viable business proposal, the prospective lending bank should be providing extra support to nurture the idea, you just never know which of the ideas, no matter how crudely presented can turn out to be a very profitable venture for both the customer and the bank!...." DD - 14/1/09

The contrary opinion was those who felt that the issue of education was overemphasised. The result showed that these groups recorded the least success accessing finance. There may appear to be a finance gap; from the financier perspective who may consider the BACE proposal to be 'risky' or may have insufficient information and therefore miss out on a bankable case. From the interview findings, only a small proportion of the qualified BACE owner managers' actually secured finance from external sources, one can then infer that the BACE levels and type of educational attainment *on its own* does not necessarily influence the probability for accessing finance. But the argument is that lending banks do put an emphasis on the business proposal accompanied with appropriate financial assessment and forecasting irrespective of educational attainment and/or ethnic orientation (Fraser, 2008) Therefore, it seems logical to infer that whilst relevant education is important, it is not a sufficient condition, on its own for receiving bank finance. As Curran et al., (1997) recognises, the role and significance of financial skills, particularly when it impacts on their understanding of financial planning, does help. They recognise that BACEs are heterogeneous and that a vast majority of owner managers do not possess sufficient financial skills to develop and manage strategic investments.

What is worth of noting is that the highly qualified BACE owner managers still experienced difficulties of successfully accessing external finance, only

33% of all cases interviewed secured bank finance, despite 53% agreeing and about 7% strongly agreeing to the relevance of higher qualifications as helping them make the right choices about which financial product to access – surprisingly, these included mostly non formal sources of finance such as enterprise loans and personal savings.

What this shows is that some of the better educated BACEs were successful with obtaining non-bank finance mainly because they could discern which finance source was most appropriate at the initial setup of the business. A female BACE for example argued that she saw no need to apply for a business loan, not because she did not need the finance, but she felt that her assessment and projection of overhead and expenditure could be managed with a small amount of start-up finance which she could raise without accessing a bank loan. Often times BACEs lack the ability to identify the appropriate source of finance at the point of need and the ability to make such assessment comes with a level of financial knowledge and management decision.

The level of human capital attained is relevant and may serve as an essential explanation for the alleged discrimination based on personal characteristics of the owner manager. However, there may be other explanation(s) for the reported barriers faced by the groups in relation to the use of business support, effect of knowledge gaps and other attitudinal characteristics of the BACE owner managers.

Looking more closely at the BACEs who disagreed that attaining a higher level of qualification had an impact on the chances of accessing external finance, it was necessary to group these responses/cases along the categories of the *level* of qualification attained. Not surprisingly, some of the cases, that had challenges accessing finance appeared to have very negative perceptions of the ‘supply side’ (lending banks). The aggregation along the levels/type of qualification was to ascertain whether there was any association between the levels of education gained and the ability of the BACE to secure finance. Table 15b compares the correlation of the ‘feel factor’ with two broad criterion (post graduate qualifications and above and those attaining less than a postgraduate

qualification). Other variables such as gender and generational/cultural views, use of 'business support' resources etc. are looked at separately in the subsequent result analysis.

Table 16b: Level of education attained and its influence on seeking/accessing external finance

	Educational Level attained	Secured Finance	Failed	Total Cases
Agreed	At least had a 1 st Degree	3	2	
	Post Grad. & Over	14	1	
				20
Disagreed	GCE/AL	1	-	
	Vocational	1	2	
	At least 1 st Degree	4	-	
				8

NB: 2 Cases neither agreed or disagreed, result discounted

The table above show the comparison of the views of the respondents when asked whether they agreed/disagreed with the proposition that levels of qualification attained helped with securing external finance in a 12 month period: the proposition is that a higher/relevant qualification increases the chances to secure finance.

Table 16b presents the result of 28 cases interviewed and split in two parts: the first where those that agreed with the proposition that the level of human capital – in terms of education – positively influenced the BACE owner manager's chances for securing finance. Those with higher qualifications recorded more success and on the other hand, those who disagreed with the suggestion that qualification attained was relevant in accessing finance recorded less success. When the cases were disaggregated and looked at more carefully (comparing the success rates), it can be suggested that the higher qualifications attained is also relevant to the success probability of the BACE to access external finance, a total of 14 firm owners with post degree qualifications and above registered a higher success rate, i.e. they were

successful in their applications for finance. Those with lesser levels of qualification (2 Cases - no formal degree) achieved the lower success rates; the 4 cases that secured finance attained at least a first degree, and didn't agree that qualification was relevant – the reason for this was probably because they only secured a small amount of finance.

Whilst this result is inconclusive due to the small number of cases studied, there is a suggestion that those with higher qualifications compared to their counterparts with lesser levels of qualification tend to agree that levels of educational attainment are relevant to their chances for securing finance. The argument was that, obtaining relevant qualification (i.e. financial or management) tends to enhance their presentation of a business case and the proposal document is better designed. The alternative argument could be that they happen to have a better business idea in the first place.

5.2.1 Summary - Relevance of Human Capital

The results in table 16b indicate that there is a relationship between the human capital attainment (in terms of qualification) of BACEs and their ability to access business finance from external sources. However, this suggestion may be largely attributed to attitudes which require further investigations and perhaps a larger sample of cases might have offered more reliable evidence. Over half of the interviewed cases expressed their views based on their experiences that those with higher educational achievements particularly those with relevant management and financial skills tend to agree with the proposition that higher qualification enhances the chances for securing finance from external sources. One of the explanations cited was that the owner manager would have a better understanding of the bank's requirements in terms of presenting a good business case with the relevant financial information. A small but significant proportion of BACEs that had lesser levels of qualifications (those with no formal degree) tend to disagree with the proposition.

A view can be taken that the qualifying requirements for external finance are standardised, irrespective of the applicant's personal characteristics. The focus for the lending institution (banks) would certainly be to maximise profits and

minimise risks. A fair (about a third) proportion of respondents thought that having a post-degree qualification did not entirely enhance the owner-manager's chance in accessing debt finance but that the 'financial skills' and qualifications in the finance subject areas were the critical needs in meeting the stringent bank requirements. It is worth noting that it may not be the owner manager who has the financial skills as it could be a financial director/officer within the company which might have been overlooked by the loans processing officer or system, it can be argued that the business owner may have presented the business case and inadvertently underutilised or recognised the skills available from other staff members.

The other important point about the relevance of human capital was that, despite a large proportion (18 cases) agreeing that high levels of human capital were desirable for interpreting and processing bank financial requirements, (such as business planning, risk mapping, equity assessments, option appraisals for the appropriate type and amount of finance required) a small number of BACE respondents still felt that the banks were not considering the limitations for those with lesser qualification and competence required for presenting a good business case. There was a feeling that many bankable business ideas and proposals could be inadvertently overlooked because of poor presentation of the business case by the BACE owner manager.

Some research (CEEDR, 2008) presented empirical evidence that some SMEs still face difficulties in accessing bank finance and presented a good account of the possibilities that there may still be some market failure associated with good, bankable business cases from SMEs that do not receive finance. However, the study found relatively few instances of market failure which is consistent with the work done by other researchers, which propose that one of the reasons for the 'finance gaps' is attributed to 'informational effects'.

The term informational effect was discussed in chapter two which looked at the missing or misinformation between the supply and demand sides. One of the effects highlights the unwitting refusal of bankable cases because of information asymmetry.

A view can be made that acquisition of appropriate relevant management and financial skills, training and experience has the potential to enhance decision making –being able to analyse and decide on the type of finance applicable, the development and presentation of the business case or proposal. Furthermore, better decision making and innovative approaches empower the BACE owner manager to break out of the *ethnic enclaves* that a significant number of some BACEs have created based on attitudinal and behavioural tendencies. Breaking out of these ‘ethnic enclaves may enable those facing disproportionate (in relation to other EMBs) barriers to absorb external shocks and thrive in difficult economic conditions as noticeable in the last few years resulting from the ‘credit crunch’. Some further discussion is made at a later stage in this chapter on the relative stimulus BACEs show in coping with the impact of the economic down turn in recent times.

5.3 Research Objective 2: Effects of Cultural and Generational Differences on Attitudes

This section consists of two parts: the first part focuses on the *cultural* and *generational* features of BACEs, whilst the second part looks more at how these factors influence their behaviour and ‘attitudes’ towards seeking external finance. These factors are intricately interwoven and difficult to separate as very little data from previous research (LDA, 2005; SBS, 2001) is available.

Questions asked related to specific characteristics of BACEs in areas such as language, knowledge of the system as a function of their past experiences, and generational influences; this considers the cultural views, reasoning and behaviours of the owner managers by virtue of past experiences, upbringing, opportunities and general ways of life. Questions related to how the BACE owners felt about failure of securing finance from external sources, the reasons they gave and how attitudinal and the discouraged borrower effects deter them from applying for finance in the first instance or trying again.

Table 17a: – Influence of Cultural & Generational Characteristics

	Research Question	Q 2/3: Cultural and generational characteristics has a positive impact/effect on the chances of securing finance				
Nvivo8 Significance Themes aggregation: All Interviews (30)		Nvivo set to equate the ‘significance’ responses for all the transcripts as a function of the themes that were ‘dominant’ in the interview transcripts as having a measured response to a pre-set 5-point scale measurement. The summaries were broken down into a more detailed result analysis in table 17b/c				
		Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Generational variables as an advantage to securing finance (in terms of where qualification attained, language and knowledge of the UK financial systems)		2	16	2	6	4

Table 17b: Impact of attitudes as a function of Generational and Gender characteristics (1)

n= (total gender/generational BACE counts as a proportion of 30 respondents)							
		Generation Counts		Secured Finance		No Success securing finance	
	Gender Split (M/F)	N	%	N	%	N	%
1 st Generation	Male	11	37%	5	45%	6	54%
	Female	5	17%	2	40%	3	60%
2 nd /3 rd Generation	Male	9	30%	4	44%	5	55%
	Female	5	16%	4	80%	1	20%

Source: Nvivo Query Outputs

Table 17c: Impact of attitudes as a function of Generational and Gender characteristics (2)

Stereotypical/feel factor: On the basis that the generational characteristics favours (positively) the owner managers (2 nd /3 rd generations probably have an advantage)											
		Strongly Agree		Agree		Neither agree nor disagree		Disagree		Strongly Disagree	
	Gender Split (M/F)	n	%	N	%	n	%	N	%	N	%
1 st Generation	Male	2	18	4	36 %	4	36 %	1	9%	0	-
	Female	2	40 %	2	40 %	0	-	1	20%	0	-
2 nd /3 rd Generation	Male	0	-	1	11 %	2	22 %	5	55%	1	11 %
	Female	0	-	1	20 %	0	-	4	80%	0	-

Source: Nvivo Query Output

5.3.1 Findings and Analysis

The relationship between generational and gender characteristics of the BACE owner managers was assessed. This was to check if there were any other factors bearing on this relationship. For example, one of the 'attitude questions' asked whether the 'culture' of the immigrant owner manager (1st generation) was much different to that of a resident (2nd/3rd) generation owner manager and whether or not this had a significant impact on decisions and orientations around applying for debt finance.

For the purpose of this discussion, the 'cultural orientation' of the owner manager is in relation to the influences of where the owner manager was born, grew up, and attained education and the experiences they encountered. Cultural orientation is an abstract concept and not easily measurable. The approach adopted was to appraise the accounts of the BACE owner managers

(table 17b) and attempt to disaggregate these under 'labels' or categories of profiles – 1st generation as one category and 2nd/3rd generations (those born and trained in London) as the other. The categorisation adopted in table 17c was based on both the gender and generation variables.

The 1st generation BACEs are those where the founder had immigrated from abroad and would be expected to have less knowledge and understanding of the business, market and regulatory environments in the UK. The 2nd generation BACE owners were either born and raised in the UK or born abroad but came into the UK at a very young (under 5) age. They would be similar to the 3rd generation BACE owners who were born in the UK and had always lived here.

Once again, the attitudes of the interviewed BACE owner managers were rated on a five point scale and considered in relation to the two generation categories. The gender sub-grouping was identified to ascertain whether there were any gender relationships/relevance of the cultural behaviours and/or orientations of the owner managers interviewed in accessing finance as detailed in table 16a. The findings suggest that the cultural orientation of the BACE owner manager does influence their attitudes to accessing external finance. Those with lower human capital feel they would be treated adversely by banks. Some 1st generation BACEs appear to hold on to 'past experiences' and therefore indicate that perceptions, behaviours and practices are interwoven. This study found that there is an increasing shift away from 'negative perceptions', meaning to say that those BACEs with higher levels of educational attainment tend to accept that human capital attainments and generational differences have an influence on their chances to access business finance from formal sources. In essence, the 'blame culture' appears to be less significant amongst those BACEs with higher levels of education.

There are also small pockets of 'gender' variability in the explanatory factors as female 2nd and 3rd generation BACEs appeared (see table 16c) slightly more inclined to agree that they suffered no discriminations by the lending banks.

This suggestion that female entrepreneurs are more likely to experience a positive outcome accessing business finance is not unusual and is consistent with similar studies (Fraser, 2008). It is worth noting that the sample of 30 cases is relatively small and therefore findings cannot result into making generalisations but simply a degree of indication of the relationships between these characteristics and its influence on accessing business finance from formal sources. The suggestion is that the 1st generation entrepreneurs may be at a disadvantage – communication problems and language skills for example, despite having higher qualifications, and in many cases, also having better business experience(s) than their 2nd and 3rd generation counterparts. Furthermore, many of the 1st and a small number of the 2nd generation respondents who were born elsewhere but arrived in London at an early age indicated that their past experiences growing up in some inner city areas left an almost indelible memory of racial bias and disadvantage on their minds. This in effect has had a long-lasting negative perception concerning accessing statutory services inclusive of financial services from formal sources.

A respondent said:

"..... I also feel that an important factor to note, perhaps as one of the reasons why the BACE has a negative perception about difficulties accessing bank finance relates to the experiences they may have had from deprived orientation which can influence the chances of success in general terms. As a qualified assessor, I have done a lot of training targeted at 'disadvantaged young persons from inner cities' EWV – 11/6/09

Some of the better educated respondents share these 'feelings' which inevitably hampers attitudes and behaviours. These 'deep-rooted' feelings of 'unjust' past experiences obscure the judgement of the entrepreneur and therefore widen the barriers they face.

5.3.2 Generational Influences

Empirical evidence (Table 17a) suggests that two-thirds of the BACE case studies suggested that the generational effect was an influencing factor in accessing business finance. In particular, this included:

1. Where educational qualifications were acquired – there were respondents who stated that foreign qualifications were rated less favourably than locally acquired degrees;
2. language fluency and
3. Knowledge of the UK financial systems and eligibility criterion.

The examples cited above are connected and suggest that those who had a UK orientation, i.e. the 2nd and 3rd generations had an obvious advantage because they were born in UK. This includes those who may have come to stay in UK from a very young age and would presumably integrate fully into the system (ways of life in the UK).

Because of the qualifications obtained in England, they would more likely have had a better understanding and orientation of living in the UK. Immigrants with same levels of qualifications attained abroad are perceived by some authorities (notably educational and vocational establishments) as substandard when in many cases this is not the case.

A female 2nd generation who was born abroad but lived her teenage and adult life in the UK had this to say:

....A BACE may have a very good business plan but language skills and communication dynamics may be a gap or challenge. For example, the business owner may not be able to make detailed inquiries, because of the communication/language or accent challenges. The preconception can be along generational lines or source of qualification. Qualifications from abroad sometimes may be seen as substandard in some cases, this is a poor judgement." JG – 16/6/09

Disaggregating the gender and generational variables showed that the female entrepreneurs generally had a small but notable advantage over their male counterparts in accessing external finance. This study did not seek to explore the differences in the basic business characteristics of businesses run by women in the ways they sought finance. However, it is therefore possible to draw a false conclusion that female BACEs have a significant advantage over male BACEs, because some of the differences in the attitudes of women-led and men-led businesses may reflect differences in the kinds of businesses that they

run. For example women-led entrepreneurs often run smaller businesses and some on a part-time basis because of family commitments and therefore seek relatively smaller amounts of finance.

Cosh et al. 2008 (one of the several studies - North et al 2010; Roper and Scott, 2007, CBR 2008; Allison et al 2005; Marlow and Carter, 2006; Carter et al. 2001 - about female entrepreneurs access to finance) looked in detail at female business leadership particularly with reference to their success in raising finance. In their work, the comparison between female-led and male-led firms that were seeking finance found no gender effect on decisions to seek finance.

However, they found that in relation to finance seekers, female-led firms are more likely to benefit from free banking and to seek significantly lower amounts of finance. The inference from this finding is that the female-led entrepreneurs are seen as less risky than their male counterparts. In their analysis, Cosh et al., adjusted for 'size differences' of the firms (female-led and male-led firms) and found no differences in the average percentage of finance secured.

It is worth noting that the apparent advantage that female BACE entrepreneurs had in the present study is inconsistent with other research findings. In their study, Caleb et al., (2012) found that a greater proportion of women entrepreneurs were solely constrained by financial barriers than their male counterparts. The reasons for this are consistent with the factors earlier indicated by virtue of the type of businesses and other personal constraints women entrepreneurs encounter.

It is worth noting that quantitative type studies limit the chances to obtain 'insider accounts' which might have altered the results in this case. The general consensus is that there were no significant differences in the chances they (female-led entrepreneurs) had securing finance compared to their male counterparts, if 'size differences' were kept constant, as in the case of Cosh et al., (2008) approach.

However, the aggregate results do confirm that the 1st generation BACEs (particularly those of African orientation) seem to agree that they were at a slight disadvantage of suffering disproportionate barriers (in relation to some other SMEs who were born and grew up in London). For those BACE owner managers in this category, the main challenge is that of 'knowledge gaps' and language fluency in some cases. A small but significant proportion of those with the least qualifications assume the position that the banks processing managers may have been prejudiced as a result of the language barriers (fluency). These claims are looked at in some detail later on when the 'provider side' accounts are reviewed and analysed.

Another key finding was that respondents with higher qualifications indicated that language barriers were of a lesser problem than the 'interrelationship bonds' between the processing bank loan manager and the BACE owner manager. The lack of confidence and overemphasis on past experiences, rightly or wrongly, is a concern for some BACEs. The impact of this is the inability to foster positive links with banks and to engage with related support provisions. The contrary is for the 2nd and 3rd generation BACEs who by virtue of their UK orientation have a more 'concentrated' relationship with these institutions, and therefore forge a way to enhance their chances of securing external finance.

A respondent said:

"I certainly think that the loan manager will assess the applicant in many parts, they will assess the loan applications based on education, based on experience, quality of business plan and potential business outlook, but I also believe he/she will assess the applicant on a personal level and a British accent (if the loan manager is British) will help. I think it is possible to use the English Language as a second language but I think it will affect the loan manager's perception and ultimately his or her decision in lending" AA – 29/7/09

The above statement suggests that some BACEs feel that the judgement of the bank loan manager may influence the outcome of a loan application, when in reality is not the case as the banks assessment of a loans application is often detached from the assessing officer at the local branch. The applications are scored by the use of computerised systems which are done centrally, thus, it

can be argued that the removal of the loan manager from the 'decision loop' might be a disadvantage.

5.3.3 The extent of 'Attitudinal' influences

There are some suggestions in this study that the cultural and generational characteristics appear to influence the behaviour and attitudes of some BACEs. This relates to the education attained where they grew up and knowledge of the system as these factors are measured by generational differences (tables 17b/c).

Measuring and/or evaluating the attitudes of BACEs relating to accessing finance from formal sources can be a difficult proposition. However, the analysis of empirical data obtained from 'insider accounts' helps in some way to understand and explain some of the underpinning reasons why some BACE attitudes are largely negative.

The category of BACEs that stood out as one for concern and scope for further research/investigations is the male, 1st generation BACEs. This group may be seen to portray a degree of susceptibility for facing disproportionate barriers compared with the 2nd/3rd generation firm owners (the reference comparators) in the finance market. For example, there is indication that the 2nd and 3rd generation Black entrepreneurs have a perceived advantage over their 1st generation counterparts as detailed in the previous section. For example, there are suggestions that the language barriers and or fluency become a debilitating factor that disadvantages the 1st generation BACEs. The proportion (about 7 cases) of all respondents in this category were those with little or no post graduate qualifications and operated predominantly within the 'risky' business sectors such as traditional goods and services supply (beauty therapy, ethnic food supply etc.).

5.3.4 Influence of Generational & Cultural Characteristics on Attitudes

Table 17a indicates how *generational* and *cultural* variations of the BACE owner managers interviewed impact on their chances of accessing external

finance. The results highlight the stereotypical views of the respondents based on the generational characteristics such as language fluency, value and origin of educational attainments. This is in terms of where the qualification was attained and the more general skills and knowledge that may empower the BACE entrepreneur, as well as acquiring complete fluency in English, thereby obviating communication barriers.

The results shown in table 17b, disaggregate the findings along gender variables, and suggest that the second and third generation owner managers enjoy the opportunity to acquire recognised educational qualifications. Four out of five of the female (second and third generation combined) respondents secured finance from external sources, compared to the two out of five (success rates) of their counterpart 1st generation female owner managers. The source of their education and orientation of the system have been cited as possible reasons for this.

Interestingly, when the responses from the male (notwithstanding their generational differences) BACEs were compared, there were still noticeable difficulties in the success rates for male firm owners in general (without consideration for the generational differences, it does remain that the 1st generation still experienced greater challenges as earlier suggested), for accessing finance. There is a proposition that male entrepreneurs appear prone to default on loans than their female counterparts (Rheinbaben & Ruckes, 2004; Boot, 2000). The notable point from their study was that, there seems to be a strong opinion based on the generational variations when the stereotypical views were scored with the help of the computerised *matrix scoring* of the Nvivo software. There is little difference between the genders but there is clearly a direct link with the cultural orientation of the BACEs and how attitudes arise.

5.3.4 Impact of 'Human Capital' on Entrepreneurial Behaviours

The results that have been presented and analysed so far examine the possibility that some of the BACE firms optimised their use of bank debt

finance by making their human capital count in their favour. The implication for this is that they use their knowledge, skills and confidence to research accessibility and qualifying criteria to a wide range of funding options. A higher proportion of the respondents with higher qualification often seek funding from informal sources at start up to minimise the risks. Some were able to critically appraise the need for a relatively small loan until there was a genuine need for a larger finance. Some research (Smallbone & Fadahunsi, 1998) argues that these groups are risk-averse which helps to explain the shortfall in bank uptake. Some of the sole trading BACEs are located in fields where financial thresholds are relatively low, with little outlay required in setting up. A female consultant (sole trader) had this to say:

"Well, one of the saving graces for me is the fact that I have not committed too much to credit facilities, I suppose, this helps my survival" SD – 21/4/09

This comment is typical of African-Caribbean owner managers, irrespective of gender, generational or educational orientation. The result does support many research findings (Ram & Smallbone, 2003; Deakins et al., 2002) that BACEs do not seek external finance enough to warrant a claim of discrimination. To evaluate this generalisation, the analysis of the findings from the 'banks perspectives' is presented in the next chapter. What these findings appear to suggest is that the male, 1st generation BACEs have the highest susceptibility for experiencing disproportionate difficulties amongst the generic ethnic minority entrepreneurs in London when seeking external finance.

It is therefore noticeable that this small but significant number of respondents interviewed considers themselves to be subjects of 'unfair treatment' that, in their opinion, is based on their identity. The alternative explanation or possible reasons for this view relate to the fact that, the reasons why this assumption is arrived at is that some of the respondents in this category may be using the alleged discrimination (based on their accounts) to mask business failure or entrepreneurial shortcomings.

5.3.5 Summary

In this section, there is limited but significant evidence to suggest that 'attitudes' were driven partly by generational variables (gender characteristics were insignificant), but what was clear was that past experience and culture of the BACE respondent were relevant. The results of using an attitude scale (Table 17a) confirm that the 1st generation BACEs (particularly, those of African orientation) agree (over half) that they were at a disadvantage because of the value of qualifications attained from abroad and in some cases a lack of fluency in English language. It is interesting and worth noting that there were some differences in opinion between the 'African' and the 'Caribbean' experiences in terms of the value of qualifications and language competency. The Caribbean experiences and attitudes were more positive than their 'Black African' counterparts concerning the language barriers – this was largely because of their quicker integration into the UK systems, with particular reference to 'accent'. When the respondents which expressed their *agreement* that there was a challenge along generational lines were analysed, it was noted that most of these responses came from those with the lower qualifications (particularly the male owner managers).

5.4 Contextual Influences: The Impact of the 'Credit Crunch' on BACEs

The timing of this research coincided with a period of decelerating economic growth with other research indicating that SMEs as a whole were experiencing greater difficulty in accessing finance, particularly debt finance from banks (Fraser 2009; Cowling et al., 2012). It therefore offered the researcher an opportunity to assess the adaptability of BACEs to the credit crunch and to evaluate how decisions about seeking bank finance were affected. It is notable that small businesses would normally face tougher challenges and therefore, BACEs are expected to face even steeper barriers.

The questions asked of the BACE firms related to their immediate concerns about their business's survival as a result of the 'credit crunch'; the

respondent BACE owner managers were asked if they were experiencing further problems in terms of raising external finance and what the nature of the problems were. They were also asked about the coping strategies adopted for managing the impact of the economic recession on their businesses.

5.4.1 Findings and Analysis

Table 18 below groups the various themes and counts that emerged from a computerised Nvivo analysis of respondents answers to a number of questions. Eight key concerns were identified. The framework designed compared the generational and gender groupings which also formed the 'Nodes' created using Nvivo.

Table 18: Reasons cited by the BACE respondents as the main concerns of 'Credit Crunch'

	(Nvivo text searches) Dominant Issues*	Significant Counts**									
		Repeat Freq. in Cases** (Tn=30)	%	1 st Generation				2 nd /3 rd Generation			
				T(male)=12		T(Female)=7		T(male)=6		T(Female)=5	
				n	%	n	%	N	%	N	%
1	No Government Support	28	93.3 %	11	91.6 %	7	100 %	2	33.3 %	0	-
2	Cash flow Problems	27	90.0 %	12	100%	6	86%	6	100%	3	60%
3	Survival	25	83.3 %	7	58.3 %	5	71.4 %	5	83.3 %	3	60%
4	Business Rates & Tax Brakes	18	60.0 %	9	75%	3	42.8 %	4	66.6 %	2	40%
5	Down size option	17	56.6 %	8	66.6 %	4	57.1 %	4	66.6 %	4	80%
6	Government Cuts	11	36.6 %	11	91.6 %	3	42.8 %	6	100%	5	100%
7	Business Growth	9	30.0 %	4	33.3 %	6	86%	2	33.3 %	3	60%
8	Risk of Closure	7	23.3 %	9	75%	3	42.8 %	2	66.6 %	1	20%

Notes :

- Dominant Issues = Computer generated themes that were repeated most via 'Text Queries'
- Significant Counts = BACE firms counted with similar themes/issues raised Repeat statements/emphasis
- Tn= Total case counts=30
- n = cases in each category

Almost all (28) of the BACE firms suggested that the lack of government support for small businesses was the biggest challenge that affected them. They felt that the business rates and tax implications could have been reduced to provide the most vulnerable businesses with a buffer zone. One of the BACE firms with particular difficulties accessing business finance had resorted to leasing of heavy-duty equipment for survival. A respondent had the following to say:

"The small businesses really are facing higher challenges and really cannot see the benefits of any government incentives. (He shows the researcher some invoices over time) these invoices increased over time in at least over a 2 year period. At the initial period, you get this discount figures (supposedly a tax break or business rate incentive) and then the next invoice has an increase that cancels out the initial discount...listen it's a mess! We also constantly have to battle with bailiffs who chase up business rate payment without considering the income/cash flow of the business. That is really why some businesses have closed down because of having to deal with the Inland Revenue departments. The system does not give allowance to periods of economic crisis to encourage the businesses to stay in trade."
BD – 26/9/08

Clearly, a tax break and/or business rate discounts over sustained periods could have provided some cushion to the harsh climate. About two-thirds of all the owner managers interviewed referred to the business rate as a 'strangling experience' to their businesses.

The same BACE respondent also stated:

"For me, one of my problems is the business rates and tax implications! The government does not offer any assistance to ensure that businesses can survive the Credit Crunch. My business rely on my clients that run small firms, therefore, if they struggle, I also struggle. The Credit Crunch has affected a lot of my colleagues businesses; I'm hanging in there really" BD – 26/9/08

But another respondent agreed with this:

"There are really no tax breaks or business rate weavers, so the government, particularly this government, are not caring enough. I also think that the business support agencies themselves are struggling to retain their grant funding and folding up how could they advise and support BACEs?" DD – 7/10/08

Twenty seven (27) of the BACE respondents suggested that *cash flow* was another (2nd most referenced issue) major challenge posed by the credit crunch. The credit crunch was a concern for many small firms of which BACEs were not an exemption. However, many were not seeking growth finance but simply adopting 'survival strategies'. Given the circumstances affecting small firms generally, ethnic orientation, personal characteristics and human capital variables were significant in coping with the economic recession.

The third most mentioned issue/problem facing the interviewed BACEs was the adoption and consideration of a *survival strategy*. Twenty five (25) of the BACE owner managers indicated that they were reducing costs, evaluating their cash positions by reducing optional expenditure and trying to 'hang in there'. A respondent stated:

"It's not just the small firms or the ethnic ones that face difficulties, I think all businesses do face challenges, it's just how businesses manage and strategise. From my contact with colleagues and partners still running businesses, what they now do is to look at survival strategies. I don't think many ethnic businesses seek growth, particularly if the sectors in which they operate are fragile" DD – 7/10/08

There were some accounts which suggested that 'generational' and 'gender' characteristics may have some bearing on the views expressed. For example it appeared that the 2nd/3rd generation BACEs were least concerned or threatened with closure, 20% compared to 75% of the 1st generation BACEs who felt most threatened by closure. When the gender categories were looked at carefully, the female 2nd/3rd generations expressed less concern about the four (4) main problems that were dominant across all the BACE firms. It is fair to suggest that generational factors, attitudes and stereotypes appear to

influence the actions and decisions adopted in managing the impact of the 'Credit Crunch'.

Again, the 1st generation BACE firms (particularly the male owner managers) recorded the greater concerns about *tax* and *business rate* issues, lack of government support and cash flow problems. The stratification approach helps to focus on the gender and generational variables and to confirm that there are significant issues/personal characteristics other than qualification such as cultural orientation of UK born BACEs and their immigrant cohort. This aspect is further explored during the interviews with the provider side – lending banks. Some aspects of consensus amongst the BACE respondents relate to the impact of the government cuts which affect communities and create a ripple effect across all sectors of community-based businesses.

A second generation female respondent made these observations:

"The Governmental approach to the delivery of public sector – budget cuts..... eventually affect all sectors of businesses/communities, even the large ones. Here, ethnicity really has little bearing, except of the fact that the level of knowledge of the business owner may play a part on how options and strategies for survival can be planned. The saying that it's the 'survival of the fittest' applies. I however feel that BACEs and small businesses generally require specialist business support and breaks from taxes and business rates to enable these businesses survive. It will be interesting to research into the business failure rates in these times of uncertainties" SW – 11/3/10

There was a consensus of opinion amongst most of the BACE firms interviewed about the credit crunch as it was seen as an inevitable challenge affecting all sectors and that virtually no one was immune to it. The worsening economic situation is increasingly telling on all small firms and that growth was not an issue for consideration for many BACEs. Apart from facing day to day cash flow difficulties, it would appear that small business owners were finding it increasingly hard to secure finance.

Another respondent also said:

"The issue right now is not about accessing additional finance, as many colleagues would agree, but trying to develop my marketing strategy and cash flow. I am considering recycling my cash flow to stay in business, even if the profit margin is minimal, I can still stay afloat. Invest in other areas

(venture capital – friends; the investor will be required to give 3 months' notice to reclaim capital injection into my business). Marketing strategy – also looking at new products and customer base. But I must say that the Government are not doing anything to assist small businesses as they claim in the press and political rallies." AO – 20/5/10

What seems to be happening as the consequence of the recession has brought about austerity measures, causing BACEs to become more innovative and starting to consider alternative and informal approaches to operation and income generation. BACE owner managers (particularly the 2nd and 3rd generations with higher qualifications) were beginning to see the challenges as an opportunity to divert emotive perceptions into positive energy by exploring alternative business strategies.

The literature review on the impact of the 'credit crunch' was sparse at the time of undertaking this study and only just beginning to emerge. This study did coincide with a time of economic recession which appears to have impacted virtually on all business sectors. Arguably, small businesses are likely to be the worst affected by virtue of the inherent characteristics of small businesses rather than the owner managers personal orientations.

There is now a good deal of evidence from recent studies (e.g. SQW & CEEDR, 2013; Cowling et al., 2013) of the impact of the recession on SMEs in general. A Greater London Authority (SQW, 2013) study was commissioned to review current supply and demand for different types of finance and to identify the size, scale and type of funding gaps for SMEs in general. The study found that 'debt finance' was the main gap (amongst others) in finance facing SMEs in general. It also recognised that the 'credit crunch' has made bank finance more difficult to access.

It was also evident in the report that small firms were adopting 'survival strategies' (as supported in some findings for this thesis). Some of the ways small firms were coping with the economic down-turn was by re-financing, down-scaling on staff and seeking alternative finance (other than from banks). Some of the alternative sources include investment funds and Enterprise Capital Funds which are still 'unpopular'.

The report concluded by justifying a new publicly-backed finance initiative for SMEs in London and also provided recommendations to the GLA on potential areas of intervention. The research now enables the GLA and partners to inform the use of £25 million of 'Growing Places Fund' money to support SME finance. What this study did not highlight was the 'proportion' of Black businesses and the funding gap estimates/projections, however it highlights that it was more difficult for SMEs in general to secure bank finance due to the more stringent terms and conditions by the banks as a result of the 'economic downturn'. It is reasonable to suggest that small firms in general, irrespective of their ethnic characteristics, were bound to face stiffer competition in the already harsh economic environment. The recent studies indicated above, looked at the broader SME businesses in London and therefore the extent of the impact on specific BACEs was not evidenced. The findings from the interviews for this thesis, shed more light on the position that, although ethnic businesses play a vital role in the UK economy with over 10, 000 Black-owned enterprises, they are 20% more likely to falter in their first 4 years of trading compared to white-owned businesses (The Open University, 2008).

Also, Black businesses are more likely to be more vulnerable to credit denials and the credit crunch undoubtedly would be expected to compound this possibility. The reason stated for this relates to the volatile nature of Black businesses which are more vulnerable to credit denial and more likely to default on their loans or exceed their overdrafts (Barclays-Webcast, 2012; Fraser, 2009).

5.4.2 Summary: The Credit Crunch & Key Issues for BACEs

Three major themes stood out from the results of interviewing 30 BACE owner managers. These focus on what they felt were the biggest challenge(s) and negative experiences they faced as a result of the recent economic down turn.

Table 17 ranks eight key issues but the three key issues are looked at:

- The main problem was that most of the BACEs (27) interviewed felt that the government was not doing much to assist vulnerable businesses by virtue of their sizes, sector aggregation and other characteristics which increase the propensity for disadvantage in accessing debt finance. The example stated was that the *stifling effect of tax and business rates* could be reduced and/or pegged at a low rate to enable vulnerable businesses absorb the impact of low cash flow and in effect 'ride the storm' until things improved.
- **Cash Flow issues** were another major challenge for majority of the BACE owner managers interviewed. This was the second prevalent problem for businesses as their customer base continued to drop. Businesses that were concentrated in the traditional supplies (such as hair and beauty supplies) sectors were the most affected. The impact of the cash flow challenges threatened survival and led to reluctant staff cuts, down scaling of operations and continually reducing overheads to the barest possible limit.

The customer base for BACEs in these sectors is predominantly serviced by low income earners within the ethnic minority populations in their respective communities in London. The Small Enterprise Research Team (SERT) customer quarterly surveys continue to show a progressive fall (as at the 3rd QTR of 2011) in sales and employment for the sectors which contributed to falling overall demand and spill-over concerns of the credit crunch impact. The findings in this study supports Gray's (2008 - webcast) postings in *Business Studies* series which stated that "*many of the smaller firms have shown in the past to be very resilient in recessions...*" this is true in the case of many BACE respondents interviewed. He also said: "*...they cut costs, reduce capacity and shed staff.....they keep their businesses ticking over, waiting for a change in fortunes for a recovery*".

Survival action was the third most dominant theme that emerged from the interviews as a way of 'riding the storm'. A majority of the BACE respondents (83%) stated that 'staying in business was critical and more important than seeking finance for growth or expansion'. One respondent said:

"It's not just the small firms or the ethnic ones that face difficulties, I think all businesses do face challenges, it's just how businesses manage and strategise. From my contact with colleagues and partners still running businesses, what they now do is to look at survival strategies. I don't think many ethnic businesses seek growth, particularly if the sectors in which they operate is fragile" AA - 9/2/11

Interestingly, the 2nd and 3rd generation entrepreneurs were least concerned or less threatened with the consideration of closures than their 1st generation counterparts. One explanation for this may mean that the owner managers in this category were more confident and sought alternative strategies to survive, it was also evident that those with higher and financial academic backgrounds/qualifications were more innovative in sustaining cash flow by reducing overheads where possible.

When the gender categories were disaggregated, it was slightly noticeable that the female 2nd and 3rd generation entrepreneurs were the most confident in 'seizing' opportunities for innovation and growth despite uncertainties. One of the reasons for this has been earlier suggested and this refers to the lifestyles of female (especially younger entrepreneurs) who seek smaller finance and often work on part time basis, inferring that they are likely to encounter similar experiences and or rejections to their male counterparts.

5.4 Research Objective 3: The 'business support gaps' identified in this study

The funding, delivery and applicability of business support form a key part of this research, particularly the gaps and policy interests in London. This research objective was to consider and explore how existing business support services and their utilisation in London met the needs of BACEs.

This study draws attention to the views, experiences and attitudes of the BACE owner managers interviewed on the subject. The culturally specific issues that may influence the effectiveness and take-up of these services are explored in some detail. Text narratives of the responses are the main technique adopted in presenting and analysing the 'soft data' collected; some of the key issues included:

1. the thoughts of the BACEs, concerning the usage of business support
2. the sources and types of support that the BACEs used for businesses advise
3. whether respondents thought there were gaps in support and their views on the value and relevance of the support services sought
4. BACE views on the policy dimensions for remedial action.

Nvivo was used to conduct a 'query search' which tracked the main themes and responses. The results were grouped based on three key headings; level of education, cultural orientation, generational and gender characteristics. The aim was to identify which of these personal characteristics best explains the views stated by the owner manager respondents.

Table 19a: Generational & Gender Relevance: Business Support & Advice

(NVivo text searches) Dominant sources*	Significant Counts**									
	Repeat Freq. in Cases** (Tn=30)	%	1 st Generation				2 nd /3 rd Generation			
			T(male)=12		T(Female)=7		T(male)=6		T(Female)=5	
			n	%	n	%	n	%	n	%
Accountants	30	100%	12	100%	7	100%	6	100%	5	100%
Bank Manager	23	76%	10	83%	4	57%	5	83%	4	80%
Business colleague/ Family	11	36%	11	91%	3	42%	2	33%	3	60%
Solicitors	22	73%	8	66%	7	100%	2	33%	4	80%
Government Support Agency (including 3 rd sector organisations .e.g. Business Link, Business Angels, LA enterprise agencies etc.)	9	30%	4	33%	6	86%	2	33%	3	60%

Table 19a above presents the results obtained from the BACEs when asked about where they could obtain advice – i.e. testing how aware they were of the available sources, but table 19b below actually looks at the actual usage. Accountants were the most mentioned (all 30 respondents mentioned accountants as a possible source). This probably came about because of the statutory requirement to submit company accounts to the Companies House. The bank manager (23) was the second most referenced source, whilst

solicitors (22) and business colleague/friend/family (11) were the 3rd and 4th referenced respectively.

The generational and gender characteristics did not indicate any significant variations in the tendency to seek advice from the main sources referenced during the interviews. The key result that stood out points to a very high proportion of the 1st generation male BACEs who relied more on business colleagues, friends or family compared with their 2nd and 3rd generation counterparts.

Table 19b: Actual usage of business support and advice as a function of Educational Attainment

Table: Awareness & use of support providers in a 12 month period												
	1 st Degree and less N=11				Post Graduate Degree and over N=19				Total Cases (30)			
	Aware		Usage		Aware		Usage		Aware		Usage	
Bank Manager	7	63%	4	36%	19	100%	16	84%	26	87%	20	67%
Solicitor	3	27%	1	9%	13	68%	8	42%	14	46%	9	30%
Accountant	11	100%	7	63%	19	100%	15	79%	30	100%	22	73%
Business Colleague/Family or Friend	10	91%	8	73%	17	89%	5	26%	27	90%	13	43%
Government Support Agency (including 3 rd sector organisations e.g. Business Link, Business Angels, LA enterprise agencies etc.)	7	63%	2	18%	16	84%	5	26%	23	77%	7	23%

Table 19b above shows some interesting findings; most notable is the general underutilisation of statutory and mainstream support agencies in London. Usage of Government sponsored (publicly funded) agencies recorded the lowest at 23% across the various variables assessed – qualification, generation

and gender of the BACE owner managers. Despite a high awareness (77%) of the existence of the government sponsored agencies such as Business Link, the LDA etc., when the educational attainment of the cases was looked at more carefully, there were no significant differences in the actual usage of these sources of business support and advice.

However a higher (73%) proportion of those BACEs with lesser qualifications relied on informal sources – business colleagues, family or friends for support. This may explain some of the ‘knowledge gap’ effects referred to in chapter 2, and the misinformation they might obtain from these sources. At the other end of the spectrum those with higher and relevant qualifications tended not to use the informal sources of advice that much, 26% of these respondents using these sources. Accountants were the most used support for obvious reasons as earlier indicated. But the usage did not relate to actual business planning and financial projection purposes, but rather, a matter of compliance with the legal requirement for annual accounts.

The interviews with BACE owner managers identified several weaknesses of the business support system in London. For example, there were some suggestions that business support arrangements for Black businesses remain fragmented and did not meet the specific needs and challenges of BACEs.

Some extracts from the interviews speak volumes:

“I can relate to the possibility that Black business owners do not use business support services sufficiently mainly because there are certain perceptions or lack of specialist support advice available. There is also a possibility that the business support service providers do not advertise their services enough therefore the owner managers are unaware of the opportunities available concerning business support, some may even think they have to pay for these services if unaware that the funding for these facilities are financed from the Government departments.”
AA – 5/2/11

“I think this is about the ‘perceptions’ we were talking about earlier and the lack of confidence and explorations. There is also a problem of lack of relevant support speciality – meaning the support agencies do not have relevant advice that meet the needs of the ethnic minority businesses, so the word that go around is that the business support agencies were not set up or resourced to service ethnic minority businesses particularly. I really believe that the government should encourage ethnic minority businesses to set up

and run these support agencies themselves.... I think the Pakistani and Indian communities do this very well" MG – 26/5/11

"One clear reason, that I have been told by some of my clients is the fact that most of the established business support agencies are not knowledgeable of the specific needs of the BACEs, in terms of culture, lack of adequate collateral, qualification and what you refer to Ade, as Human Capital..." HB – 14/6/11

Another explanation cited by some BACEs is the lack of confidence and negative attitudes about the providers of business support it is the same attitudinal characteristics which also creates 'discouragement' as in the case of seeking finance as earlier detailed. A respondent said (see below) that some BACEs do not seek business advice because they lack knowledge of the benefits offered and this has been supported by the human capital variables measured in earlier parts of this section. The perceptions also play quite a key role on the views of some BACEs concerning the set-up of publicly funded support provision as one that simply fits a 'tick-box' exercise.

The respondents were also asked how they thought the business support services could be better utilised and accessed by BACEs. A number of crucial points were raised and many of these have a direct bearing on policy implications and the redistribution of government funding plans for public funded support services concerning BACEs. The following excerpts allude to some of the crucial points raised:

"But from the Government points of view, more needs to be done about understanding the specific needs of the specific ethnic groups that face difficulties. I'm also not sure the Government puts in enough resources into this area. In China, community banks exist particularly for small businesses, and these are monitored by the Central Government, this idea can be explored here in the UK." AO – 23/4/10

"As suggested, I think BACE- led business support agencies need to be set up, I also think the Government should monitor banks and rate them on how well they engage and make business finance available to BACEs" AO – 23/4/10

A particular firm owner, one of the highly qualified BACE interviewed, indicated that there were some tangible benefits on offer by specialist support

provision such as Enterprise Agencies, as these have a better understanding of the needs of local businesses within the communities within which they are situated. He said:

"I do not think it's a legislative issue. I think the business supportive system has all the credentials, but possibly requires them to diversify their strategy. This could include on site observations, small business group courses whereby those from various businesses share their experiences in the presence of those who could offer guidance....." B0 – 8/12/09

It appears that 'financial education' *has* been identified as a remedial approach for policy makers to reduce the information gaps existing between the demand, lending institutions and the business support systems. The research objective was to review, analyse and seek explanations about the support gaps and resulting low take-up of business support amongst BACEs that would enhance their chances of accessing finance. The BACE owner managers interviewed suggest that public and private sector funded business support programmes are perceived as being inadequate in meeting their needs. The focus and justification of this research objective was to evaluate the policy implications that will promote and enhance the utilisation and adaptability of 'generic' support services for BACEs.

5.4.1 Summary (Business Support)

The findings draw attention to the views, experiences and attitudes of the BACEs. Table 8b ranks the range of business support and advice sources used. This was further disaggregated along generational and gender variables/categories. The following are the headline findings:

1. All the BACE respondents (30 cases) used an *accountant* at one point or another during the business operation. This is as a result of the statutory requirement to submit company accounts to the Companies House. In many cases, the BACEs did not actually maximise the range of services offered by the accountants in areas such as business planning and cash flow projections to enhance their business proposals to the banks. The

reason for this was not readily clear, but some suggested that the professional fees charged for professional services were too high. It can be inferred that in some cases, BACEs did not invest adequately in professional support services. It can also be said that the BACEs who were 'investment -shy' were prone to being misinformed because of over reliance on informal sources of support and advice.

2. The bank managers were the second (23 cases most referenced source for business advice approached, whilst solicitors (23 cases) and business colleagues/friends or family were the 3rd and 4th sources referenced. Some of the success rates arising from the utilisation of bank business support utilisation are explored in the next discussion section relating to views, experiences and accounts from the 'provider' side.
3. When the generational and gender characteristics were analysed, there was little evidence to suggest that these variables did influence which type of business support source(s) were utilised. However, the 1st generation male BACEs relied more on the 'informal' sources of support and advice – business colleagues, friends or family member.

When the qualification levels of the BACE case studies were analysed as a function of which source(s) were approached/utilised against just being aware of the source(s), some interesting findings were noticeable. Usage of government sponsored (public funded) agencies recorded the lowest usage at (7 cases) irrespective of the qualification levels attained, generational and gender variations. The reasons for this were not immediately noticeable, nonetheless, an unusually higher proportion (22 cases) of BACEs with lesser qualifications tends to use unconventional sources – business colleagues, family or friends for advice. On the other end of the utilisation spectrum, those BACEs with higher human capital tend not to use informal sources of advice. The underutilisation of formal sources of business support does exist, even though many were aware of the range of support sources

available within the public and enterprise agencies. The explanation for the underutilisation cited by the BACE respondents in many cases suggested that the support services offered by the statutory/public sector providers were 'unsuitable' and did not meet their specific needs.

It either means that, the business support providers were not reaching the BACE communities in an effective manner or that the BACEs themselves were not 'looking out' enough for help and advice.

4. Negative perceptions tend to 'cloud' the decision-making and thought process of a small but significant proportion of BACEs, this means that they do not seek the help, information and advice of professional business support services enough or at all in many instances. Another issue is the aversion to paying for professional advice and assistance. Many BACEs do not wish to pay for professional support services when desirable.
5. There were also strong indications from the BACE respondents interviewed who suggested that the methods of marketing and communications strategy of the support providers were weak and did not reach the BACE communities adequately. There were positive views from some of the highly qualified respondents desired for a more targeted approach of reaching BACEs.
6. A high proportion (25) of all the BACE respondents felt strongly about the absence of 'specialist support' providers because the 'generic' support provisions do not 'engage' BACEs adequately neither do they satisfy the unique needs that are peculiar to these groups. A '*one size fits all*' of the existing generic support services has come short of delivering the specialist support services for BACEs.

5.5 Conclusion

This chapter presents and discussed the findings from the BACE perspectives whilst investigating the personal attributes and attitudinal tendencies of the group and how these impact on their chances of accessing and securing debt finance in London. The underlying issue is that, many BACEs see their ethnicity in many ways as a mitigating circumstance and therefore, express certain attitudinal behaviours that are triggered by a number of 'individual attributes' such as human capital, past experiences and the knowledge gap of the finance market and processes. However, a small but significant proportion of the BACE respondents interviewed tend to mask their entrepreneurial failures with the 'alleged' discrimination by the lending institutions, notable, the banks. The next chapter (six) looks at the perspectives of both the bankers and business support agencies (including the third sector support providers) detailing the views they (the banks) have about the BACEs relating seeking and securing debt finance.

CHAPTER 6: PERSPECTIVES OF THE BANKS & BUSINESS SUPPORT ORGANISATIONS: PRIMARY RESEARCH FINDINGS (2)

6.1 Introduction

This chapter consists of two main parts: firstly it presents and discusses the results of the interviews with five High-Street banks in relation to their procedures and practices for processing business finance applications and their interactions with BACEs in particular. The reason for this approach was to see if the attitudes of the BACE owners about the barriers they faced in securing business finance from formal sources would be verified or refuted. Secondly, the importance and contribution of various business support providers including various public, private and third parties are examined. A framework for policy intervention is explored and some comparative views (American perspectives) are considered with a view to adopt good practice and make some case for future developments of the themes that emerged during the interviews and subsequent discussions/analysis.

For the purpose of this chapter, 'Supply Side' is referred to as five selected High Street banks and the business loans or business development managers' accounts from the in-depth interviews presented and discussed. The literature review of the supply-side (chapter 2) showed a number of key points to explore concerning the interrelationships between the 'demand' and 'provider' sides. It was felt that having consulted the selected BACE owner managers' views, it was desirable to obtain the corresponding views of the 'provider' sides with a view to 'triangulate' divergent opinions in a way that helps bring together information which adds value to the body of knowledge. Before the findings are discussed, it is necessary to set a context for the judgements relating to 'loans application; which the banks have to make. Firstly, from an economic point of view, the findings from the respondent lenders (bank managers) interviewed suggested that discrimination was irrational when discriminations were alleged. The report (Fraser, 2009)

presents empirical findings that there are longstanding concerns about access to finance amongst SMEs due to capital market imperfections. One of the key reasons for these imperfections is that finance providers may find it hard to assess the creditworthiness of small firms due to information asymmetries.

The relevance of information gaps between the BACEs and the lenders have been discussed in the previous chapter. This problem could result in viable businesses failing to receive adequate credit i.e., credit-rationing. However, the empirical relevance of credit-rationing is questioned by some authors (Parker, 2002) and recent empirical evidence suggests the majority of small firms are well supplied with finance (Fraser, 2009). Developments in lending technologies may be partly responsible for this apparently healthy situation. Developments in small business credit scoring have reduced the costs of lending to small firms and improved the accuracy of risk assessments (Bank of England, 2004; Berger et al, 2005).

6.2 Supply Side Findings

Face-to-face, in-depth interviews with five purposively selected high street bank managers from London formed a key part of the field work. The objectives were:

1. To investigate the knowledge, attitudes and practices of the *supply side* in dealing with BACEs; in the application and use of bank loans for business finance.
2. To consider the 'loan processing' systems and how this may affect the success rates of BACE finance loan applications
3. To ascertain the level and extent of the 'knowledge gaps/information asymmetry' existing between the 'demand' and providers'.

The semi-structured interviews (see interview template attached as appendix) was designed as open questions that were semi-structured, they were focused on testing whether loans managers were aware of the barriers faced by BACEs. The interviews largely probed into the practices of business loans

decision-making processes and the criteria adopted in dealing with applications from BACEs.

Findings are presented as extracts from interview notes and discussed using a narrative approach where some of the data are 'produced in the form of narrative accounts'.

6.2.1 Knowledge, Attitudes and Practices in dealing with BACEs

6.2.1.1 Ethnicity Monitoring

Four of the five responses from business finance loans processing managers interviewed suggested that the ethnicity of applicants was not monitored, implying that there was no basis to assess, evaluate or judge application outcomes based on personal profiles. A bank manager said:

"...really, we do not monitor ethnicity, and I don't think many other banks do so by default.....I think the critical relevance is to capture the relevant economic data (collaterals, risk factors and financial information which will aid the processing of the application – Bank A"

The significance of the above statement imply that, the absence of obtaining 'personal information' may mean that the relationship history and interaction with the BACE applicant is lost, and therefore increasing the possibility for the bank to lose out on a good business case. The researcher assumes that monitoring of ethnicity may have helped local decision making, by considering other personal factors such as the knowledge of the 'customers history' with the particular branch. The value and benefits of 'bank relationships' are often lost as decisions are made centrally, negating the influencing autonomy of the local branch. On the other hand, there is also a danger that qualitative (as opposed to quantitative), financial data could be a source of prejudicial decisions being taken. There is a possibility that the initial clearing/preliminary assessment of loans applications could potentially

be biased due to the experience and/or prejudice of the loans manager. Evidence to support this premonition is difficult to obtain as information sharing is quite difficult to obtain from the banks due to the 'confidentiality and privacy ethos' binding the banks.

What is clear, is that, the lack of *soft data* can give rise to information asymmetry (Fraser, 2008), because of some of the reasons stated above, an adverse decision could be arrived at inadvertently. An alternative explanation is that diversity monitoring could provide a 'level-playing field', in the sense that the processing manager has an opportunity to consider the disadvantage(s) the firm owner may have such as language barriers and to redress these.

The argument that has been presented in chapter 2 about computer-based assessments is relevant here. The 'soft data' referred to relates to some personal and or relationship attributes peculiar to particular groups, many of these – education, experience, talents etc. are not recorded information and hence can be easily missed. One respondent (DV), a start-up and small business manager at a local branch in Brent informed the researcher that the bank only evaluates loans applications based on *prescribed processing formulae* which takes account of the 'risks' and 'collateral' potential of the business owner. Respondents were asked whether the business type and personal attributes in terms of qualification, banking relationships and other nonfinancial information offered any value to the loan processing criteria. Two providers (Bank 'A' & 'B') both agreed strongly that these were very relevant for local decisions to be made without over reliance on centralised processing.

"...the subject of qualification, type of business and other non-formal attributes such as skills are quite useful in making local decisions on loan processing for small amounts of advancement...such as amounts not exceeding £30 - £35K for start-ups" (Bank B)

The other view obtained from Santander and HSBC does contrast in the sense that, almost all applications were processed centrally and therefore, losing out on the more qualitative, and relationship knowledge of the owner managers:

"...more recently, branch managers have lost the autonomy to make decisions due to the more stringent criteria prescribed as a result of the economic down-turn. In effect, it is possible then to presume that the understudy groups may lose out in the customer relationships built over long periods.....this often provides a much needed verifications of the track records (Bank D)"

6.2.1.2 Sector Relevance

All the five business loan processing managers interviewed suggested that the sectors within which many BACEs operate are usually risky. They concentrate in traditional markets such as personal services, arts, cultural industries and services targeted at closed communities. The respondents (providers) claimed that the bank, by choice, do not treat BACEs differently to other business loan applicants based on sector variables, but as a function of risk evaluation and economic terms. The banks admitted that the 'retail' sectors were much risky propositions due to the 'entrapment' within the local communities:

"...to be perfectly honest, the communities served are very enclosed and therefore restricting access, personnel and skills....this means that sustainability is restricted and therefore, in economics terms, present a very significant risk for investment and profitability (Bank B)."

This finding can also be misconstrued to mean that, BACEs which congregate in retail businesses are more likely to have low human capital as previously explored and discussed in the previous chapter. Bank 'A', 'B' and 'C' concurred that lower educational or management qualifications do not directly inhibit the chances for securing finance. However, the skills and financial knowledge, in terms of presentation of ideas, cash flow and business

growth strategy are a clear disadvantage for these groups. Nearly all the bank personnel involved in the processing of business finance loans agree that sound business planning, cash-flow and security availability, helps the banks in making informed decisions. The following statement supports the views about relevance of qualification to chances of securing finance:

"....qualification is not really the main issue.....experience and knowledge of the business market.....is of greater significance" (Bank A)

Based on the BACE findings discussed in the previous chapter, it can be suggested that, the notion of perceptions of discrimination by some BACE may be due to the impact of 'knowledge gaps' between the 'demand' and 'supply' relationships. When economic variables are considered, it can be argued that the banks decisions are mostly unbiased due to 'assessment procedures' they have to comply with.

The researcher's view, however, is that, applying a blanket approach to processing business loans application may pose some difficulties for BACEs. This is because, by virtue of the 'riskiness' and 'size' of the Black business, they are naturally disadvantaged concerning access to bank finance (BBA, 2002). Even though, the providers make a legitimate claim to the fact that business decisions were solely based on 'risks' and 'business economic factors' rather than personal characteristics of the applicant, a respondent bank manager said:

"...the basic and fundamental objective for us is to ensure that risk is managed and proposals for obtaining finance must be decided based on merits and most importantly, making profits...this is a difficult position to explain, but is this not what the investment is designed for?...at least from the banks perspectives. (Bank E)

Another bank manager made a reference to how the educational attainment can influence the decisions of some BACEs, in terms of 'choice' and 'location' of their businesses; he said:

..I was talking earlier on about education and ability to explore other business types....rather than the usual, micro-scaled business where most of the local traders concentrate (Bank C)

The problem here is that the 'provider' attitude towards processing a business case is defensible, whilst the 'demand' sides see this from a different perspective. BACEs feel that the failure to secure formal sources of finance has a bearing on the unique characteristics of the owner manager – ethnicity; and to a lesser importance - type of business; generational effects; gender; size and human capital; and other defining personal attributes that create a disadvantage situation (North, et al. 2007; Deakins, 2007).

There is a divergent view from the provider-demand interrelationships that is unclear; the sector relevance has been described by the 'social clusters' or 'ethnic enclaves' within which many BACEs trade. The banks, particularly argue, that the 'risk' elements are the main issues, but the demand sides interpret this opinion adversely. The relevance of the sector is arguably unclear; the views held by both parties are tenable, but subjective to reasoning.

Empirical data obtained is insufficient in making assertions that the practices and evaluation of loan applications by the banks can be seen as 'discriminatory'. This disagreement in opinion is further explored in the next sub-section, looking at the interrelationships between the banks and the BACEs.

6.2.1.3 BACE-Provider Interrelationships

A business relationship manager interviewed referred the researcher to a newsroom archive and referenced a Bank of England report in 2002; excerpts from these are shown below:

.....lenders believe that the businesses of small firms are risky because of the business types they operate. Lenders do not understand the communities of these groups enough, particularly those of the immigrant entrepreneurslargely BACE's. Some banks operate a system of 'brokers', who were usually from the ethnic minority communities (Bank of England, 2002). These brokers consist of a range of professionals and other intermediaries such as accountants, solicitors, insurance brokers as well as ethnic minority community leaders. In these sorts of arrangements, there is evidence that brokers were used as explicit forms of learning and entry into the BACE markets.

This is quite an interesting reference to the investigation into how the banks utilise the relationships, particularly for those BACEs that have built a verifiable track record with the banks. Some of the findings that emerged during the interviews with the purposely selected BACEs suggested that, despite the lengthy periods of banking history with some of the banks, there still seem to be disproportionate barriers in accessing finance, despite 'good, bankable propositions'. This position is supported by findings from a 2008 study (Deakins et. al, 2008), which looked at the general SMEs (Black firms are included in the findings) and set out to identify if there was a 'finance gap'. It is often the case that Black businesses are included in the SME findings and this poses a degree of uncertainty because the real issues for BACEs are often generalised with the SME findings. This problem has been identified in several aspects in the literature review chapter. Deakins et al., (2010) suggested that there was evidence that some categories of these firm owners may face greater difficulties or exhibit certain circumstances in which it may have been difficult for bank managers to apply standard decision- making

models, i.e. via computerised assessments of business loan application at a central point without face-to-face assessments.

When the respondent banks were asked how the lender-borrower relationship influenced decision making, a mixture of responses was obtained. Responses were largely attributed to the impact of the local centralised systems of processing applications. Furthermore, the shift towards centralised decision-making in the banks (even prior to the financial crisis) could well have disadvantaged BACEs. This has become more of a problem in recent times owing to the effect of the 'global economic downturn' and the ever increasing pressures on lending banks. A respondent loan manager said:

"...the relationships with BACEs, especially the older ones, used to be an important criterion and decision making requirement. (Bank A)

When the researcher probed further, seeking explanations...the respondent expanded:

...for example, any customer (irrespective of the ethnic orientation) with over 10 years of banking history, usually was not (until recently) required to undergo rigorous credit checks as the history of performance and credit worthiness was easily evaluated.(Bank A)

Another supported this position:

"..recently, I would say in the last 6 – 7 years, the requirements to employ computer-based credit check and referencing has overridden the discretions of local managers in evaluating risks and financial burden that may ensue following business loan offers...really, the current climate affects all businesses....but I would agree that, historically, some...I mean very small proportions of BACEs that I have dealt with do have a good chance in securing business finance based on the history they have banking with us.(Bank B)"

The responses from all the five banks were almost similar, clearly, the consensus was that historically, prior to 2005, the relationships with local business development managers and the BACE was a positive consideration in evaluating credibility in terms of ability to 'pay back' loans, and therefore, lowering the supposed barriers. Furthermore, this point suggests that personal relationships developed at the local branch level can be especially important in the case of BACEs in overcoming the kinds of barrier that they face.

It was impossible to review documentations and this was a clear limitation in obtaining 'real time' information by inspecting records due to 'data protection'. Most of the respondent bank managers interviewed (and two in particular: Bank A and Bank C) referred the researcher to the publications site of the Bank web site where reports were accessible, but still, limited information relating to monitoring and comparison of applications, outcomes and success rates of BACEs compared to other ethnic firms were unavailable. Most of the major banks interviewed were 'cagey' with information, limiting access to relevant information. The advent of computerised processing of business loan applications has taken away the autonomy of local branch managers, therefore missing out on the benefits of the relationships with the BACEs and increasing the information gaps.

Table 20: Comparison of the bank's decision making structures

<u>Bank</u>	<u>Decision Making</u>	<u>Observations</u>
Bank A	Previously, mostly centralised, but now A small measure of Local inputs from Business Development Managers	One of the more sophisticated banks in considering relationship history as key factor. Business liaising managers assigned to applications and therefore recommendations to central office enhances outcomes.
Bank B	Mostly Centralised, limited local input	Computer-aided, interrelationship banking critical
Bank C	Historically, local discretion prevalent, but in more recent times, Limited Local discretion (smaller loans), larger loans decided centrally	Local branch managers have reasonable autonomy/powers to recommend offers, client history/record pertinent in the decision making outcome (i.e. credit scoring)
Bank D	Predominantly centralised, following merger	Computer based assessment
Bank E	Shift to centralisation, previously local discretion predominant	Shift to Computer based assessment

6.2.1.4 Credit Scoring & Loan Processing

Credit scoring and collaterals security (BBA, 2002) are two key elements involved in the processing and assessment of business loan applications.

Credit scoring refers to centralised decision making points, usually detached far away from the applicant. Credit scoring is a form of transaction lending which has grown in importance for micro business lending since the mid1990s (Allen et al, 2004; BOE, 2004). Credit scoring involves the development of statistical models, using large samples of data on past borrowers, to predict the probability of default. Applicants' data can be fed later into the model to arrive at a credit score which then forms the basis for lending decisions. Some of the implications for BACEs, are that, the application of a blanket scoring system indirectly and unwittingly creates an 'uneven playing field' for them due to the 'size' and 'market imperfections'. Credit scoring has a long history

in consumer lending but its application to micro-business loans is relatively recent. Fraser (2008; 2009) noted that the limited data availability on small businesses (not just BACEs) can arise to poor 'predictive power' of the credit scoring system.

As a result of this, the local discretion of the branch manager is increasingly becoming non-existent. During the interviews for this thesis, it was not very clear if the local decision making was any better than a centralised method, as records were not available for review, due to data protection reasons. All the bank respondents interviewed were asked what they believed were the most rated reasons for BACE difficulty securing loan finance, all the five managers indicated that several factors were often noticeable from periodic reviews of applications, but the three key reasons that were dominant related to *credit scoring, collaterals* and *business planning*' in that order.

The banks agreed that the recent economic-down turn has made it more difficult for the local branches to exercise discretions and that the impact of this was the inability of the banks to use local knowledge gained from relationships with existing customers. Credit scoring has now become the absolute minimum requirement for all banking and financial institution to undertake when customers seek credit facilities or loan advancement. This takes away the customer-banking relationship totally. A respondent attests to this view:

"...there is a clear shift away from the historical 'performance scoring or behaviour scores generated from internal analysis of the customers banking history. This approach was evident a decade ago, but recently, all banks are forced to apply more complicated computer-aided scoring and decision-making. I will agree that, inevitably, your study groups may suffer even greater disproportionate disadvantage....but to be honest, this is out of the control of the bank and really, some degree of government or financial standard intervention might be a better remedy. (Bank C)

6.2.1.5 Collaterals & Security

It was not possible, during the interviews with the selected banks to review application results and or notification letters, which, presumably would detail the security requirements for each proposals. However, three of the banks, the more established ones including Banks A, B and C all gave estimated ratios of equity to loan requirements as follows:

(Equity: Loan) Bank A: 50:50 / Bank B: 40:60 / Bank C: 30:70

These options were arrived at based on other variables such as total advancement sought, the value of the business plan, the robustness of cash flow and other macro and micro variables stipulated by a computer-based analysis, considering risks, inflations, interest rates etc. Because the banks interviewed did not have ethnicity monitoring reports, it was not possible to ascertain the degree of variation in success rates of BACEs concerning equity/loan ratio of borrowing. Some explanations were cited concerning some 'Asian' firms who often had access to 'family business' or co-operative 'equity base' which some banks found acceptable as a form of unorthodox guarantee. A respondent loan manager said:

"...from experience, we have noticed that some small Asian starters had access to family wealth, many that are traced to family chains of enterprise. In many cases, these equity offerings were 'gifted' which means the entrepreneur did not have to pay this back. So therefore, the bank accepts this as a positive equity and this greatly enhances the chances for the Asian business starter to secure sufficient finance. (Bank A)"

On the other hand, BACEs seldom have similar networks that could offer these sorts of informal guarantees due to limited social networks available to them (Berry, 2006). In cases where a BACE could raise collateral via third parties (including personal loan), these sources are seen as added debt and liability which further affects credit ratings/scoring (Fraser, 2007).

6.2.1.6 Business planning

The impact of business planning on the success of business loan application is critical and all the banks indicated that this was relevant in evidencing the cash-flow potential of the business proposal. Banks A, B and C particularly claimed that huge investments had been expended to ensure that entrepreneurs (start up and growth) receive adequate support with developing and projecting cash flow. Sadly enough, many BACEs and similar small firms of other ethnic backgrounds do not take up these provisions of impartial and expert financial resources and support facilities. It was also evident talking to the respondent banks, that some BACEs with lesser human capital attainments are less likely to use professional services with claims that they are too 'expensive'.

This is consistent with other findings (Dhaliwal, 2006) on the use of business support, showing that better qualified entrepreneurs tend to make greater use of the services available than those with low qualifications. What can be deduced from this view is that the respondent bank manager's position suggests that there is an association between the level and type of qualification of BACEs and their ability to produce good business plans. The experience cited by all three banks mentioned above suggest that human capital in terms of relevant financial qualification (cited in chapter 5) play an important but not a determinant role in presenting business loan proposals. Many proposals from BACEs do present very good business planning as these groups on the average attain higher qualifications than their peers from non-ethnic backgrounds. But surprisingly, there are still significant numbers of failing outcomes from loans application. This cannot be corroborated as records were not made available by the banks during the interviews when asked. When the question about financial education and its relevance to the chance of a successful application for finance by the BACE was asked, all the respondents agreed that one of the reasons attributed to the alleged

perceptions of discrimination resulting from unsuccessful application has to do with 'financial literacy'. One of the bank managers said:

"....given that we notice there is a lack of understanding or a suspicion of the banking sector, the requirement of financial information can be seen as a barrier, particularly for those with limited knowledge of the significance for these information and the use of them by the bank.... (Bank B)

Another respondent said:

"..some owner managers who have advanced qualifications in finance and related subjects do have a greater awareness of the significance of business planning, cash flow projections and risks mapping.....these are very crucial factors needed to assess loan application (Bank E)

These responses confirm previous findings in research (Bank of England, 2000; OCED, 2004); these studies concluded that the issue of financial literacy and capability is emphasised. During the interviews with selected BACEs (presented in part 1 of this chapter) some owner managers, particularly those with lesser human capital queried the relevance of business planning and it is not surprising that many of those who held this opinion often recorded poor successes in accessing external finance.

6.2.2 Knowledge gaps between 'demand' and 'supply' sides

A number of themes emerged during the literature review - information asymmetry (the phenomenon attributed to the lender when partial or missing information exists about a prospective BACE and this resulting to 'finance gap') and the 'knowledge gaps' of the BACE themselves as a result of low human capital as discussed in depth in chapter two. These terms are used interchangeably as one is a cause of the other, but have distinct meaning and interpretations (these terms have been covered in the literature review chapter). A number of propositions have emerged during the in-depth interviews with

the BACEs and the literature searches which lean towards the notion that information asymmetry is the fundamental cause of any of the widely reported finance gaps affecting BACEs. This implies that bank managers lack information about BACEs (Stiglitz & Weiss, 1981).

This literature presents a theoretical argument which suggests that bankers may restrict credit due to insufficient information, but in practice, bank managers may accept limited information if the local branch manager could exercise local discretion based on relationship knowledge. Arguably, the information unevenness problem has been made worse by the increasing shift from localised decision making processing of loans applications to centralisation in bank lending decisions involving rigorous credit profiling for all applicants.

The contemptuous view is that, why should the effects of information asymmetry be any more a disadvantage for BACEs, than it is for other EMBs in the same sector. Therefore, the notion that, problems arising from information gap between the 'demand' and 'supply' side is open to subjective interpretations is a reasonable statement.

The existing 'information gap' between the principal agents (demand-supply), causes a problem for both agents, because of the possibilities for misinformed opinion between them. The consequence of this is that, decisions may be based on insufficient or imperfect information (Fraser, 2009). That is to say, a viable business case may have been missed because of either missing information or absence of adequate information. Some of the broad questions explored and the resulting responses are presented below based on generalised themes that emerged as possible impact of the lack of information or opportunities to enhance applications from BACEs at the local decision making level.

Table 21: Respondent Bank Views on Adverse Selection

<u>Bank</u>	<u>Possible reasons resulting to 'adverse selection'</u>	<u>Comments/references from interview</u>
B	No basis to validate financial history	<i>"..when dealing with young entrepreneurs(irrespective of their ethnicity), those with very short banking history, there is no practical means to check this apart from the credit scoring ...but I think some cases may have been otherwise suitable business plan, but the centralised decision making cancels out this opportunity...unfortunately..."</i>
C	Some BACEs not forthcoming with verifiable financial information	<i>"...in many cases, applicants are not open about the risks of their proposals and often times, we have to probe rigorously to meet our risk control, but in some cases, this creates misinformation and subsequently affecting real cases based on the 'tick' exercise in assessment forms that are fed into the computer systems....the difficulty of course is that , at the other end, where the applications are processed, there is no opportunity to 'negotiate' or add other information that are available when the local branch manager meets with the applicant..."</i>
A	BACEs business sector profiles, the risks and communities served adds a significant risk to the outcomes of application	<i>....as you probably know, we are a pioneer in the reporting of work and improvement strategies to encourage BACEs in developing their businesses....in actual fact, we have recorded the most success in offering BACEs business loans both at start up and growth....but really, the sector types that most of the entrepreneurs, especially those in the inner cities congregate are scores as 'high risk' ...but this is not to say that</i>

<u>Bank</u>	<u>Possible reasons resulting to 'adverse selection'</u>	<u>Comments/references from interview</u>
		<i>the business proposal was weak, but the economic sustainability for these sectors is the main problems.....also the lack of information of the 'recipient market of local services and goods may pose a problem in securing finance...</i>
E	Advent of 'Centralised Decision Making'	<i>"...the information gaps between the bank and the aspiring entrepreneur, including those already trading is the lack of adequate understanding of the requirements for lenders to process loans applications.....many see negative outcomes as being discriminated against, but in reality, there are risk controls enshrined into our processes</i>

In general terms, the five banks' responses mainly agree (with some little variations) that, banks do normally rely on past financial performance and history as an indicator of the future performance and ability to repay loans. It is evident from the in-depth interviews that younger BACEs (in terms of number of years of trading and/or relationship/ time with their banks) may suffer the most difficulty in securing debt finance. This was corroborated during the interviews with some BACEs during the first phase of the field work. New BACEs expressed fears of not 'having a chance' in securing debt finance because of lack of verifiable track record. The researcher infers that they are probably no different from most (if not all) new firms in this respect.

The characteristics of some of the BACEs in terms of the community they serve pose some challenges to the 'information gathering and risk profiling' approaches employed by the bank. For example, one manager (Bank A)

suggested that the sector types and communities served are 'closed'. What this means is that some BACEs that were locked into 'ethnic enclaves' are serviced by ethnic businesses only and thereby restricting their growth potential. The concern for the lender is that the affected BACE being locked into a particular market will limit the growth potential of the business. What was not clear during these discussions was whether some of these cases were after all, good business cases as recorded cases was inaccessible during the interviews and the manager declined to elaborate on this aspect when probed, citing confidentiality.

In another discussion/interview, there were concerns that many BACEs (particularly the younger ones) did not approach the banks; therefore, the claims of difficulties cited by many of the demand side were not justifiable.

One other key finding from the lender's perspective was the fact that, in many cases, the BACEs do present good business proposals, but the problem of centralisation worsened the chances of the BACE to secure finance.

At least 3 of the big High Street banks interviewed agreed that the 'local relationships' developed over time with the BACEs and the communities within which they operated were somewhat lost by the increasing use of credit scoring and centralisation of the decision making process. The economic crisis has made this even worse. There seem to be a consensus by lenders that the lack of 'qualitative information' feeding into the decision stages (computer-based) is a big issue for all applications.

It only means that BACEs, by virtue of the 'inherent characteristics' of BACEs, financing relate to the attitude and objectives of the owner-manager such as the 'Human Capital' – in terms of financial education, experience and sector attributes; their inability to provide strong collateral all seem to compound the chances for successfully securing debt finance. The claims of discrimination by some BACEs are unfounded, the following supports this view:

Firstly, the human capital factor is very critical to the approaches employed by the BACE which means that those with higher and relevant educational

tendency have good financial skills to explore options, appraise requirements and therefore able to meet the qualifying criteria. On the contrary, those with lesser or no financial education tend to congregate in the 'traditional sectors' which are seen as 'risky' propositions by the banks (Ram et. al, 2002; Hussain & Matlay, 2008). All the banks surveyed claim that ultimately, decision to grant debt finance application hinge on economic appraisals rather than diversity orientation.

The second main theme that seems to emerge is the impact of 'insufficient information' which in many cases can result in good, bankable cases being turned down. Examples of the lack of 'soft-data' – personal information which is absent in application forms was cited earlier. This is consistent with other research (Deakins et. al, 2008; Lean & Tucker, 2001; Ram & Smallbone, 2001)) in the field, therefore, there is a need to begin to focus on the policy dimensions needed to 'bridge' the widening gap which is made worse by the increasing use of computer-based decisions on applications.

The loss of 'personal touch' in terms of local bank /relationship manager powers seem to be a bigger issue which the lenders feel is largely responsible for the 'perceived' barriers and 'negative attitudes' exhibited by many BACEs. For example, there are some 'informal information' such as knowledge of the relationship manager about the BACE business in areas such as lack of formal or advanced education on the part of the applicant BACE, in these cases, the local manager can refer the applicant to an 'in-house' business adviser, waiving consultancy fees where the business proposal is promising, but lacking in presentation and financial projections.

The local input can make all the difference as the relationship manager can support and recommend alternative scoring approach for selected cases. The Bank 'A' and 'C' loans processing managers interviewed concurred to this, and that the recent practices do not favour this approach any more due to the stringent conditions the lending banks now have to comply with.

6.2.3 Policy dimensions: Bankers Perspectives

All five business development bank managers interviewed were asked how the specific barriers suffered by the BACEs could be redressed. The responses are summarised in the table below:

<u>Banks</u>	<u>Remedial Suggestions/Policy intervention</u>	<u>Comments/references from interview</u>
Bank B	-Establish more BACE support groups as partners with the banks -Expanding Communities served to enhance 'risk' profiling by consumer relevance	<i>".... BACEs are seen to have very little social capacity compared to other ethnic minority firms, the reasons may have to do with the mistrust they may have within their own business circles....I think they need to expand their market place and engage other ethnic groups to expand their horizon..."</i>
Bank C	Sam e as above, in addition, application processes can be processed using 'clearing agencies' with specific knowledge of BACEs policy initiatives to embed these in processing applications	<i>"...i think setting up of support systems that are run and managed by BACEs themselves will mitigate the 'information gaps' we have discussed earlier....this specialist groups will receive training, guidance and monitoring from the banks, the idea is that information will flow in a two-way traffic which would improve the knowledge of both the demand and supplier sides ultimately...."</i>
Bank A	-Promote 'alternative funding sources -Improve local 'databases' of BACEs -Creation of BACE databases accessible to financial services -Promoting financial education -Take-up of specialist support offered by bank(at a minimal cost)	<i>"....the more disadvantaged groups by virtue of the attributes which make small firms 'risky' should be encouraged to seek alternative sources of finance such as micro-finance initiatives which require less stringent eligibility criteria. It appears that there may be overreliance on debt finance.... ...availability of a localised databases of EMB's is an area that research has repeatedly suggested, but really, very little has been done in that regard...perhaps, BACE advocacy groups cam commission such projects and lobby the London Development Agency for a national database that will inform financial assessments..."</i>

<u>Banks</u>	<u>Remedial Suggestions/Policy intervention</u>	<u>Comments/references from interview</u>
Bank D	<ul style="list-style-type: none"> -Enhance links with BACE communities/consumers of services and goods, -Exploring alternative funding sources -Availability of monitoring data by the LDA with clear links and accessibility to financial planning -Educating BACEs on lending criteria and role of external controls. 	<p><i>"...High Street banks sometimes appear to be quite detached from BACE communities, and the reasons, in my opinion are to do with the sectors and communities within which they operate..."</i></p> <p><i>"....many times, I feel that some small firms make wrong choices by seeking debt finance to either start or grow their businesses, this is because the minimum qualifying criteria in areas of equity, credit scoring and lack of financial education is the first hurdle that is often failed. I think, seeking alternative sources such as social funds, community initiatives and similar non-formal sources of finance may be suitable, but of-course, the underutilisation of appropriate advice and/or misinformation on both the demand and supply side is evidently a serious matter to look at from the policy perspectives..."</i></p>
Bank E	<ul style="list-style-type: none"> -BACE Database -encourage use of alternative funding -Mentoring Schemes managed by BACEs (bank funded) 	<p><i>"...lack of information of the sectors of aggregation of BACEs can be seen as an area to explore in some details...centralisation of decision making processes is a huge disadvantage to small firms as the scoring indices are very small and tagged as 'risky'.....the fact of the matter is that the banks cannot base loan applications on sentimental logic as the computerised systems are designed and configured to evaluate risk and profitability, if these two conditions are not met, there is no room for manoeuvre..."</i></p> <p><i>...i think, better information exchange between the demand and supply of finance is a key gap in the chain, both parties have a duty to improve this...but off-course, a wider policy development ...</i></p>

A number of progress paths have been identified by the respondent business loans managers interviewed as presented above. Some discussions and implication for policy around some of the key views from bankers based on some of the quotes itemised above are discussed in the concluding chapter.

Whilst Chapter 7 will discuss in some detail, the implications of these findings to this research, some headline proposals suggested by the banks for 'bridging the gaps' between the BACEs and finance providers are summarised below:

1. The communities within which the BACEs congregate needed to be expanded, as this may further 'spread risk' profiling in terms of market failures and maximisation of social capital which have been suggestively low for the group.
2. The banks suggested that there was scope to 'fortify' the links between the 'demand' and 'provider' relationships, particularly concerning 'behaviour profiling, attitudes and potentials' which currently are computer-generated within the loans processing.
3. The continued shift from localised decision making to centralised decision making has further alienated local branch managers from the process, therefore, losing those 'informal and useful knowledge of the BACE's business attributes, qualities and aspirations. A very strong and present case for failed bankable proposal. Two of the five banks surveyed indicated that the centralised decision making did not entirely eradicate the links with ethnic minority communities (Banks 'A' and 'C') and the building of trust, which is dependent on experience, knowledge and perceptions of importance. These discretionary tendencies are still being exercised, but at a lesser capacity than in the last decade or so. This is attributed to the changing global economic challenges, which, invariably would impact more on the vulnerable business owner manager.
4. Three of the five banks concurred that lack of a unified database of BACEs in general is a critical factor in the impact of evaluating tendencies, attitudes, social capital and most importantly, business behaviour linked to the characteristics of the specific owner manager across the various sectors within which they operate. A government led initiative to build a database of the micro and macro financial

information required for 'risk' mapping, taking into account the unique characteristics peculiar to small firms might be a worthwhile project to embark upon. This approach would engage the BACE representative specialist, the banks and an intermediary to facilitate and quality assure the project.

5. It was also suggested that advocacy support and intermediaries that are specially focused on servicing the disadvantaged groups was desirable. Bank managers are well aware of the importance of intermediaries for getting new business in ethnic communities. More so, to bridge the information gap that exists between the demand and provider sides. Examples within the Asian communities were cited and that the BACEs could adopt these approaches.
6. A new area which emerged during the interviews with the Banks relate to the divergence between policy and practice concerning relationships with external organisations including professional support agencies (this is looked at in some detail in the next subsection). There is growing concern that many support agencies were being abolished by the present government. This is not surprising, given the recognition of variable quality across different support agencies, relationships and relevance of the services offered did not meet the needs of the BACEs. On the other hand, it is arguable that many BACEs underutilise the available services anyway.

6.3 Intermediary Perspectives - Business Support Gaps

6.3.1 Introduction

The final aspect of this chapter presents the findings relating to support provisions gaps concerning access to finance for BACEs particularly from commercial banks. It also looks at the relevance of the third sector business support services to the financial needs of BACEs and considers possible policy implications.

During the outset of designing the field work for this research, it was strongly felt that interviewing a number of third sector business support providers in London would be a useful approach to investigate the availability of specialist skills and services designed and targeted to meet the needs of BACEs. It became obvious that collating a list of business support providers that services BACEs was not a straightforward task. This was because there was a plethora of organisations – public sector (those funded directly by the government) and the third sector organisations (voluntary organisations that seek funding from the public sector bodies-LDA, Business Link) in London.

It became apparent, from discussions with many of the voluntary sector support organisations that were unable to evaluate their effectiveness in terms of meeting the needs of many of the BACEs because of lack of systematic monitoring of success rates for the BACEs supported in securing finance from banks. The approach then was to rely more on the public sector intervention – largely, the London Development Agency which has, in its last three years of existence, moved towards consolidating the fragmented third sector organisations, by realigning its core responsibilities of building the capacity of small business growth and improving access to finance.

The aim was to consider the appropriateness of the LDA's role at the time, given that it was the main agency responsible for economic and business development in London at the time of the empirical research for this study was undertaken. Parts of the aims were to retrospectively evaluate and analyse the 'relevance of the LDA to policy effectiveness targeted at the BACEs'. The logic for this change in method was to find solutions to the poor utilisation of

business support provisions by BACEs. Furthermore, almost all the five banks interviewed highlighted the needs for BACE specialist support and policy framework as fundamental to bridging the widely reported 'information asymmetry' between the demand and provider agents. The LDA service realignment with the Small Business Service (SBS) mainly through Business Link for London (BL4L) provided the most relevant, accurate and verifiable findings and overview of the numerous third sector performance and activities relating to BACE support outputs. This realignment was under the then Labour regime who decided to bring Business Link under the control of the Regional Development Agencies (RDAs) in 2005.

6.3.2 London Development Agency (LDA): Findings

The LDA is the Mayor of London's agency for business and jobs. It is the main economic development body for London and plays a pivotal role in supporting the growth and development of viable businesses. It commissioned a ground breaking research in 2002 to determine the business development and growth needs of Black and Minority-owned businesses to London economy. One of the key findings related to issues and gaps relating to business support services concerning Black entrepreneurs specifically.

In November 2005 and again followed up in the spring of 2008, the researcher had extensive interviews with a senior officer of the London Development Agency (LDA). The officer was a Senior Enterprise development officer within the policy and procurement division shared his views about the barriers faced by all Black and Minority - owned Enterprise as a whole, which includes the BACEs. Three key themes were explored in depth and these are presented in turn.

6.3.2.1 Role of LDA and Support Provisions

The role of the LDA in ensuring the support provisions were adequately targeted at meeting the identified needs of BACE formed the focus of review in retrospect. The respondent indicated that the LDA has a significant role to play in addressing the issues relating to absence of specialist business support

provisions for BACEs. He stated that the LDA was part of a network of key organisations which he referred to as 'mainstream' which influence or provide business support across London boroughs. He referred to them as a 'London Business Support Network'. He stated that:

"...the LDA is in the process of taking sole responsibility for Business link for London (BL4L), funded by the business support agency the Small Business Service (SBS) of the Department for Trade & Industry (DTI), the reason for this is to have a greater control and monitoring of the efficacy of business support service delivery by government funded third sector organisations such as the East London Small Business Centre (ELSBC)....., LDA 2008

This response suggests that the proliferation of private sector and third sector organisations was a disadvantage in monitoring how effective the business support services offered were and therefore leaves a big gap in the needs assessment, data collation and ability to ensure that policy measures are effective. Having said this, just two years thereafter this interview, the government announced that the LDA was to be abolished and assimilated into the Greater London Authority (GLA) as part of the current government's strategy to make efficiency savings. The shift of the LDA's responsibilities to the GLA may make it more difficult to achieve the rationalisation of support provision. This means that the BACEs could lose their voice in a much larger group of the SME umbrella. Prior to the current position, the LDA felt that the business support service provision could be better evidenced by aggregating mainstream support provision and reducing the third sector groups.

The timing of this research therefore appears to coincide with the restructuring of the governmental body responsible for business support service provisions, leading to a period of uncertainty. It is therefore difficult to measure the effectiveness of the proposed rationalisation of support provisions in London. Perhaps, in a few years, following the GLA takeover of the LDA and affiliated organisations, further research is desirable to ascertain the effectiveness of the intentions. But at the time of conducting the field research, the role of the LDA

was seen as a 'big brother' to foster a link between BACE's and the 'cocktail of business support provisions'.

6.3.2.2 BACE- Focused Support Organisation

The LDA sees these third sector groups as critical to bridging the gaps between the demand and provider sides as a 'way forward' action. For example, the respondent agreed that the relevance of dedicated BME-owned support organisations was critical, but that there were large shortages of these in London. The LDA development officer said:

"...to be honest, it is clear that there are scarcity of specialist support organisations in London, not in terms of numbers but certainly in terms of targeted advice and support to Black-owned businesses based on needs... LDA, 2008"

"One other fact is the lack of co-ordinated data on local Black businesses and their characteristics. There is long history of calls for more information that will enable business support providers deliver targeted support, very few specialist support services have these..... LDA, 2008"

Even though, there is a growing recognition of the need to develop a robust database of the attributes of BACEs, certainly around the sector types – there is wide acceptance amongst researchers that BACEs congregate in certain business sectors which make them risky – creative industries such as music and fashion are deemed to be more risky for bank investment, social networks, advocacy agencies, training resources and other subjects that , in all would provide the third sector support providers with 'rich' resource bank. Perhaps, further research is desired to achieve this.

Interviews with four of the five banks certainly has clearly identified this and expressed willingness to collaborate with the relevant governmental body to commission such project. The challenge is the unstable situation (changes in Government funding commitments) in consolidating the fragmented third

sector business support organisations. Perhaps the timing of this research can serve as a real opportunity to heighten awareness and stimulate debate.

6.3.2.3 The relevance and effectiveness of the ‘third sector’:

Business support provisions

The respondent (LDA) reaffirmed that improving access to formal sources of finance for BACEs in a targeted manner has always been a priority for the third sector business support providers. The third sector organisations sprang up in the late 1980s due to the lack of progression or opportunities in the employment market for the Black working age population and the increasing barriers that the BACEs faced in the open market securing external or debt finance. A senior officer of LDA gave some reasons for the resurgence of third sector, he said:

“Ade, I referred you to the Research commissioned by LDA which confirmed that BME-owned business, particularly those operating in traditional ethnic markets such as goods and services delivered to such communities are particularly affected....what then happens is that BME support agencies began to form with the single aim to provide the specialist support and advice to this groups...but then, funding for these valuable advocates continued to be a challenge and today, very many of these enterprise agencies have folded up...” LDA, 2008

The above statement also suggests that the void being filled by the third sector was triggered by the lack of specialist services targeted at BACEs and other ethnic EMBs. The LDA respondent was asked what he felt was the role and importance of the private sector support provisions. He suggested that they played a complementary role to the public sector providers such as the Business Link for London (BL4L).

He recognised that the private sector includes the High Street banks, other financial institutions and sources of equity and venture capital including business angels. He agreed that there is an increasing funding gap for these

sectors and expressed concern about the possible impact the absence of these 'third sector' organisations would mean to the BACEs.

He had this to say:

"Really, there is still significant cause for concern that the demand side, mainly BMEs lack awareness and knowledge of the availability of business support and the lack of utilisation of mainstream support services remain one of the main reasons for failing to access debt finance..." LDA, 2008

From the LDA monitoring reports of value for money, there is now a real danger that underutilisation of support services is part of the reason the Department for Business, Innovation and Skills (BIS) continue to explore ways of consolidating business support services and subsequently reducing funding for these. This refers to the support simplification programme initiated by the previous government.

There is some suggestions from this research (having spoken in depth with both *demand* and *provider* sides) that support from some mainstream financial service providers was increasingly becoming 'detached' – not in terms of access for BACEs but in terms of 'relevance to the specialist needs' of some ethnic minority businesses.

At this juncture, there are still some unanswered questions; how relevant are the specialist support enterprises offering support and advisory services to BACEs? The answer is 'patchy', but there is strong evidence emerging that the issue is not just that of under-utilisation of business support services and advice, but an equal absence of 'good' and specifically nurtured advice to meet the needs of BACEs. During the interviews with the '*demand side*', one respondent supported this proposition, that many business support services for Black businesses remain fragmented and lacked government backing.

A BACE respondent said:

"I can relate to the possibility that Black business owners do not use business support services sufficiently mainly because there are certain perceptions or lack of specialist support advice available. There is also a possibility that the business support service providers do not advertise their services enough therefore the owner managers are unaware of the opportunities available concerning business support, some may even think they have to pay for these services if unaware that the funding for these facilities are financed from the Government departments...AA, 2010"

Another also said:

"I think this is about the 'perceptions' we were talking about earlier and the lack of confidence and explorations. There is also a problem of lack of relevant support speciality – meaning the support agencies do not have relevant advice that meet the needs of the ethnic minority businesses, so the word that goes around is that the business support agencies were not set up or resourced to service ethnic minority businesses particularly. I really believe that the government should encourage ethnic minority businesses to set up and run these support agencies themselves.... I think the Pakistani and Indian communities do this very well.....DD, 2010"

As part of assessing the effectiveness of business support to BACEs, the 2005 LDA- research identified significant gaps relating to the consequence of the proliferation of voluntary sector support organisations. Two main issues emerged:

Firstly, there is the lack of database due to the fragmentation and secondly, the lack of appropriate funding initiatives to support the work of specialist supports providers. The next chapter looks at the aspects warranting further research and offers suggestions and recommendations to add value to the debate.

One of the emerging themes that have become clear from the interviews with the selected BACE owner managers and the banks is the proposition that specialist needs of BACEs are best met by specialised support organisation. The discussions with the LDA senior official concurs that this is in fact the case. This has led to a series of BACE focused interventions over almost two decades, resulting in specialist agencies proliferation. But the question is 'how effective has the delivery of support services to the target groups, or rather, are BACEs utilising these services to the maximum potential? This question remains to be explored in future research. The LDA agree that Enterprise

Agencies referred to as 'Third Sector' organisations do provide a valuable range of services to London's SMEs which often complements mainstream public sector programmes.

The LDA respondent said:

"Actually, what I refer to as the third sector organisation comprises enterprise agencies such as 'One London'. Hope you know that this was formed as a result of a merger between Greater London Enterprise and London Enterprise Agency in 2001.....others are the East London Small Business Centre (ELSBC) or those that focus on a specific borough, such as the Business Enterprise Centre in the London Borough of Hammersmith and Fulham..."

Nevertheless, the LDA officer suggested that the 2005 research conducted identified several weaknesses with the existing business support provisions for BACE-owned businesses. For example, there is some sense that business support arrangements for these groups remains fragmented. Because of the plethora of agencies and organisations has led to business support agencies chasing the same funding programmes and providing similar services with varying quality.

6.3.2.4 Government/LDA 'Long-Term' Strategies for 'Policy Intervention'

One of the key themes explored was to assess how the government/LDA was setting up 'long-term' strategies to use 'policy intervention' for addressing the challenges faced by both the 'demand' and 'provider' sides concerning access to business finance. The timing of presenting the findings relating to the LDA's long-term strategies and views of adopting policy interventions in improving the accessibility of BACEs to debt finance from formal sources of funding is a challenging one. The reason for this was the imminent take-over of LDA by the Greater London Authority at the time. This would certainly have been the case by the time this dissertation is complete.

However, looking in retrospect, the LDA respondent interviewed supported by the numerous reports and secondary information studied suggested that a number of measures were considered as part of on-going development of BACE business support in London.

Academic authorities in this area (Ram et al. 2001) have presented various findings and recommendations relating to the efficacy of Ethnic Minority Enterprise policy instruments. This research complements the perspectives and themes that emerged with a specific view on how the well-founded themes relates to BACEs as a specific segment of the wider EMBs in London. The more specific question for this research is to focus on how relevant generic support services are to BACEs and to ascertain if indeed there is a lack of specialised/tailored support for these groups as suggested during the interviews with the 'demand side'. The next subsection of this chapter (6.3.3) addresses the question of to what extent generic support does address the needs of BACEs with regards to accessing finance and whether they did have specialist needs which aren't covered by the generic support.

The LDA's position is weakened to a degree because of the imminent changes that will see the department marginalised and abolished. However, the LDA authority interviewed emphasised the 'inadequacy of existing database' relating to the BME enterprise community (Ram et. al, 2001). The referenced study acknowledged that even where data was said to exist, 'it appeared to be vague or indirect in that it was effectively drawn from the census, simply describing the size of the ethnic minority population in London.'

This thesis explores the case for the need of a specific group of the wider BME business entrepreneurs – BACEs. The implications for policy development are profound and require further investigation. The LDA and the BL4L agree that 'policy agendas' need to begin to separate the strands of the BMEs into specific policy dimensions targeted in a way which begin to create 'specificity' of needs and solutions.

The lack of *quality data* is now a recurrent theme in expert reviews on the efficacy of policy in practice. Some of the discussions with the senior LDA respondent identified 5 key areas as clear needs for targeted policy intervention:

1. lack of information on the real nature of BACEs characteristics
2. need for new strategies for establishing and developing a robust database to bridge the 'information and knowledge gaps' existing between the demand and provider sides
3. concerns about the quality and relevance of advice, support, mentoring and training for 'third sector enterprises' offering business support and advise
4. Disaggregating BACEs from the wider SME groups – this relates to the 'specific cultural needs' of some BACEs. For example, there are some characteristic disadvantages created by 'ethnic enclaves' that had been discussed earlier
5. Lack of clarity for Central Government initiatives ; focusing policy intervention to sensitise self-help groups within the disadvantaged communities in question - BACEs

6.3.3 Enterprise Agencies

The research question concerning Enterprise Agencies (EA) was to evaluate how effective voluntary sector support providers met the specialist business support needs of BACEs and to evaluate the role of policy in meeting the unique business support needs of BACEs. The earlier part of this subsection focused on the Government sponsored support organisation whose roles included policy development and monitoring. Some arguments emerged during the interviews with the 'demand' and 'supply' sides which suggested that governmental business support agencies such as the LDA and BL4L may not be equipped to meet the business support needs of particular groups of entrepreneurs, as defined by ethnicity, gender, age etc.

The third sector is seen as complementary to the wider policy focus and this section of the thesis presents the findings of a detailed desk-top review and

interview of specialist selected enterprise agencies. The desk-top review of some BME-led specialist organisations was to investigate the scope of areas supported, practices, testimonials to the utilisation and relevance, outcomes and gaps assessments. Secondary data obtained from CEEDR who had conducted a scoping research for the LDA on access to finance on SME was also reviewed.

Findings of the five purposely selected third sector providers studied by CEEDR were referenced and three of these were interviewed with a view to evaluate the relevance and/or absence of specialist business support functions and specialist services offered. Appendix (i), summarises and compares the range of key functions of the enterprise agencies discussed. The discussions that follow, on one hand, assesses the relevance and range of 'targeted' services BACEs are reported to desire and on the other hand, to balance the argument on whether BACEs adequately utilise the range of services.

Appendix 1 compares the range of services designed to meet the specialist needs of BACEs and also identifies some of the weaknesses or absence of services. As part of assessing the effectiveness of business support services on BACEs, this research looks at the relevance of dedicated business support agencies for BACEs. Whilst many other similar organisations have ceased to operate – North London Business Development Agency is one of them, the reason for closure is lack of funding. The BBV and the HBDA are examples of well set-up voluntary sector organisations that offer BACEs an excellent range of 'targeted' services.

Usage of these is a question that needs further research as indications from the interviews with the selected BACEs are that the entrepreneurs do not use these services enough. Some of the reasons and explanations have already been presented in the earlier sections.

From the table, two key gaps were identified: Firstly, the lack of ethnicity monitoring makes it difficult to quantify and disaggregate the proportion of BACEs within the wider SME groups accessing the services. Much research (CEEDR, 2009, LDA, 2005, Ram, 2001) concurs that lack of adequate database for

BACEs is a clear problem to inform policy development. Secondly, a number of local enterprise agencies (HBDA) have developed best practice approaches and initiatives and have therefore made significant contributions to the development of BACE owned businesses in the local areas.

Many of these enterprise agencies have a good track record of facilitating or handholding BACEs to raising finance and securing small loans (CEEDR, 2009). The question therefore is to ascertain the usage levels and the appropriateness of the range of services on offer, rather than presenting aspects of the business support policy framework. The next chapter discusses the policy implications across the three principle players (demand, provider and intermediaries) associated to the difficulties relevant to access to finance for BACEs. The concluding chapter also reveals the need for more qualitative research to explore whether, and to what extent, alternative and new perspectives on supporting Black businesses are desired.

To answer the later question, the next sub-section highlights the differences between specialist support provisions compared to the mainstream (referred to the strategic body support provisions). Ram and Smallbone, (2001); CEEDR (2009) amongst many other expert researchers (Bennett, 2005) in their work for the SBS provided elaborate facts and theories that show the importance of specialist provisions for meeting the needs of the BACEs. It was clear, from the Bennett (2005) report that specialist support organisations were best set up to reach and engage with BACEs. Three specialist enterprise agencies (see appendix for questionnaire format adopted) were interviewed based on the premise to locate knowledge of business support within the BACE support providers. The focus for this was to ascertain whether there were needs not met within the generic/mainstream support services applicable to the wider SMEs. The key issues/findings are detailed.

6.3.4 Mentoring & Referrals by Enterprise Agencies

Questionnaire extracts obtained from CEEDR provided useful insider views of five (5) Enterprise Agency (EA) interviews. The findings formed part of a 2009 scoping work that informed a report (North et al., 2010) to the LDA on SME access to Finance in

London. The author, with CEEDR permission used the interview extracts to assess the role of EA's in enhancing EMB chances for securing external finance. However, it is worthy to note that the 2009 scoping work focused generally on SMEs, but the locations of the EAs (inner cities) provided some information pertinent to BACEs. Advisers offering BACEs advice about external finance needed to have a good understanding of the needs and skills/knowledge gaps of the BACE. The CEEDR report (2010) suggested that the five interviewed business advisors indicated that referral by enterprise agencies made it easier for SMEs to obtain external finance. Again, there is a difficulty in discerning the proportionality of BACEs included in this projection, but the logic is that many small firms of BACE are included. The report stressed that enterprise agencies play a mentoring role which helps to build up confidence in small business owners, providing them with awareness of the sources of finance available. They also provide guidance to small businesses including introduction to finance providers, including accompanying business owners to meetings, and handholding them through the application process. One of the questions asked by the CEEDR Interviewer (IE) was to find out from the EA how referral from them enhanced the business owner manager in obtaining external finance. The following quotes illustrate are some illustrated responses:

"If they have a mentor it makes life a lot easier for them. It builds up confidence in them. It also gives them greater understanding of sources of finance." PBC, 01/10/08

"Referral is very important. Organisations such as ours have a greater understanding of what they need. We understand their requirements and will steer them in the right direction. We effectively get them ready in terms of giving those interviews skills." BBV, 30/9/08

"Referral makes it easier to a large extent. We prepare them. We work with a number of banks. We help businesses to identify sources of funding. We help them with their business plan. We coach them. We support them in many ways including handholding." HBDA, 1/10/08

"I think it makes it very easy. We have good contacts with big banks and with middle management. We introduce businesses to these contacts. Referral is quite seamless." BBV, 30/9/08

Referrals to the finance provider were matched to the needs of the business entrepreneur and these were not exclusive to high street banks only. The following institutions/referrals were mentioned by the interviewed advisors: One London, The Princes Trust, the Scarman Trust, Phases in Business, Lottery Funds, and the LDA. The business advisors indicated that they rarely referred firms to equity finance such as venture capital organisations and business angels. Their reasons were captured in the following quotes:

"We have referred businesses to three or four venture capitalists and business angels, but it didn't work out. They wanted control of the businesses concerned. It is also important to point out that entry requirements are very stringent." HBDA, 1/10/08

"They are only useful when large sums of money are required; not small amounts of money such as £30,000 often required by small businesses." CBV, 23/09/08

6.3.5 Enterprise Agencies Accounts – How effective are mainstream business support provisions.

The focus for this aspect of the research was to establish if the generic/mainstream business support services were insufficient for the needs of BACEs. Some indications by the LDA was that this might have been the case following the 2005 research commissioned to determine the business and developmental support needs of BMEs. The justification for the LDA led research was that a large proportion of BME-owned businesses perceive that they were not receiving sufficient support from mainstream business support agencies and organisations. There were some suggestions from the findings of the research (LDA, 2005) that the mainstream support services may not be entirely beneficial or not effective in meeting the needs of the BACEs. Therefore, it was desirable to get further accounts from a few select enterprise agencies servicing BACEs particularly. The main findings/themes that emerged that were peculiar to the research question is itemised below.

6.3.6 Existing Business Support Framework

There was a consensus of views from the BACE interviewed (chapter 5) that the current arrangements were 'inconsistent' and therefore were ineffective in meeting the needs of black businesses. For example a respondent claimed that BACEs may not utilise mainstream support services enough and in many cases (at all):

"From experience, I know many BACEs do not engage support services adequately because they feel they were of no value in them or that they were not willing to pay for professional services...."(DH, 2007)

The respondent showed me some scripts of feedback questionnaire collected at one of the Black Business Observatory events in London where Black business owners showed a degree of 'ignorance' towards the role and benefits of LDA:

"Dealing with the LDA is like dealing with Goliath – try and call them on the phone...it's very off-putting...they are too big, too powerful...faceless and almost like 'a one way street'....they don't make themselves available....they only contact you when they have a conference where in many cases there are not less than 350 people in a massive hall.... (DH, 2007)

What is obvious is that some BACEs certainly feel detached from the structure of bureaucracy and the regulatory complexity of the public sector giant (LDA). It can be inferred that the structure and processes existing are inaccessible and unsuitable for this user groups. Another excerpt cited says:

"The way support services are structured, positioned and funded has meant that people are not only excluding themselves but the structure also excludes them...the structure comes with a lot of red tape ...over centralisation....Now the business model they are adopting will make things even more difficult...." (AA, 2008)

It is assumed that the continued amalgamation of the public sector controls on business support alienates BACEs even further, but there is no evidence to support this as it is early days to make judgements on the abolition of the LDA for example.

6.3.7 Effectiveness of Standardised Business Support

It is common knowledge that business support services for the wider SMEs are generic in nature regardless of the ethnic orientation of the business owner. Subsequently, the extent to which the 'blanket approach' may help move

forward the debate in terms of strategic relevance is considered doubtful. A BACE respondent said:

"The approach is pretty much a one size fits all...support provision is not customised based on any thorough evaluation and understanding of the needs of Black businesses, the stage of entrepreneurship development with the Black community, capacity development needs in terms of enabling infrastructure, skills and competences" (BO, 2011)

The underutilisation of business support is indicative of the argument that a customised or specialist support framework is desired. One of the logical reasoning to this line of thought is that mainstream support services appear to be top-down and the disengagement of the end users may be seen as a strategy lapse or failure. A BACE respondent indicated how difficult it was to access the LDA and that the only engagement channel fostered was the marketing of conferences that were so large. In such events, it was not possible to positively engage and involve BACEs in any constructive way. The sort of dialogue and activities that can effectively identify and design 'specialist support services' were far-fetched and therefore detaching Black businesses from the essence of these mainstream support services.

6.3.8 Ethnicity & Cultural Relevance

It is possible that one of the self-made effects of the aggregation of ethnic BACEs in concentrated communities can be blamed for the disregard of 'cultural relevance/awareness' in mainstream support services. Most of the enterprise agencies respondents felt that the mainstream provision was not tailored to address cultural needs of the BACE owner manager rather than there being any relevance to the social group itself. There were balanced views relating to the effect of the ethnic and or cultural orientations. Some of the respondent EA suggested that some ethnic groups with limited qualifications were more likely to be oblivious of appropriate supports for their businesses at various developmental stages.

".....Ethnic groups with lack of/low education are not likely to know what is out there. Take for example, a new arrival or refugee will not know about sources of

finance in this Country. People with English as their second language are also likely to struggle with raising external finance" BBV – 30/09/08

He also adds:

"....but I think that the problem of raising external finance depends on how entrepreneurial you are rather than ethnicity..."BBV – 30/09/08

*"..I have clients who have been to five organisations but did not get much assistance...they've got only mental business plans and nothing written on paper...and may not understand the terminologies used on them....we (the specialist / LDA respondent) use Africa proverbs, phrases etc. to communicate technical information. When they approach the mainstream providers a couple of times those providers quickly give up on them...classify them as timewasters and move on to other people because they cannot take more time than was allocated in the contract...." BBV –
30/09/08*

It is obvious that cultural idiosyncrasies (in terms of behavioural attribute, style and method of communication which is peculiar to 'ethnic enclaves') seem to be an ever present issue for BACEs as reported in many aspects of this thesis.

Therefore it seems that a specialist business support provider is able to offer the BACE with value-added support than the 'checklist' approach offered by mainstream provisions. Ethnic enclaves as a phenomenon have been described in some details in chapter 2. In the analytical context and significance of this important term, some elaboration here is necessary.

The American case study does not in any way represent a worldwide view, but the authors study and review of the American perspectives of BACE owners suggests that there are some reconcilable similarities to the UK perspectives and characteristics of the study group. The discussions about the untapped assets of ethnic enclaves to inform policy development regarding business support are useful. The theory of social capital and the formation of BACE networks create the social foundation of *ethnic enclaves*. Massey (2010) describes how migrant networks provide immigrants entrepreneurs with social capital that can be transferred to other tangible forms. As immigrants tend to cluster in close

geographic spaces, they develop migrant networks—systems of interpersonal relations through which participants can exchange valuable resources and knowledge.

Immigrants can capitalize on social interactions by transforming information into tangible resources, and thereby bridge the ‘knowledge gaps’ amongst entrepreneurs. Information exchanged may include knowledge of government assistance programs and helpful NGOs which can offer specialist business support that is not available in mainstream support services as the UK scenario suggests. To contribute to policy intervention, adopting the American system by stimulating social connections, ethnic enclaves can generate a pool of intangible resources that can help to promote and bridge the gaps in specialist business support in the UK. By providing a policy framework for co-ethnics to create and lead on potentially beneficial relations, ethnic enclaves can assist members in seeking and accessing business finance by overcoming the knowledge gaps.

6.3.9 Financing Specialist Support providers

During the in-depth interviews of the ‘supply’ sides, all of the five High Street banks were involved in some sort of pledge into funding initiatives targeted at BACEs and the wider BMEs. The challenge, it seems is the accessibility and awareness of this to the BACEs. One of the main challenges for BACEs is the ‘knowledge gap’ that has been covered in some detail during the literature review and empirical research.

The review of secondary data, information on policy, practices and procedures of the third sector providers of business support further re-affirms the evidence that there are indeed several initiatives that can be maximised by the BACEs. The problem of underutilisation, lack of innovation and adequate exploration of the market place can be attributed to some of the failings in securing appropriate funding. A debateable view was that funding support and accessibility for SMEs generally have not been altogether favourable to BACEs.

There is apparent over-centralisation in how these are managed and a more sensitive view is the lack of ring-fenced funding regime set aside for BACEs. The lack of funding for specialist business support providers is seen as a huge gap in the policy intervention to meet the needs of BACES. For example, the ability of the specialist support providers is hampered by the increasing funding shortages. A respondent from an inner London EA said:

"The government are commissioning the wrong providers, who are not producing the goods. Secondly, the people who produce the goods are funded to fail because they fund you for the projects that don't fund the support mechanism that goes with it....."

The model for funding business support at the recipient level has meant that the service providers are not capacity-built to deliver quality and targeted service BACEs need. Some EP described such limited, short-term funding as largely 'funding to fail'. The respondent officer also said:

"If you fund an organisation to fail, it is bound to fail. If you fund it to succeed, it will succeed....Ok, there is an increase in number of specialist support providers to the Black business community but how well funded are they?"

6.4 Underutilisation of Business Support

Narratives and accounts of the specialist support providers revealed a more positive disposition compared to the reported literature review which some providers consider as a 'red herring.' An interesting discourse here was that specialist providers did not believe that take up rate of business support is low. This clearly contrasts with reported policy dimensions. The proposition emerging here is that BACEs do not utilise mainstream providers because of the various reasons discussed above and therefore it does not imply they were underutilising such services. This bares credence to the stand point that BACEs would approach sources that offered specialised support and advice which was amiss with mainstream support agencies. A provider stated:

"....depends on who you talk to ...we have about 200 Black businesses on annual basis that come here to access services...you go to those people providing general

advise, they may have the same number but how many of those are Black businesses?...yes they are accessing support services if you pitch at a certain level, at a certain taste, with certain meaning. I was delivering a workshop one night about 9pm in an African-Caribbean restaurant and it was packed full. I noted that some of the attendees used the platform to transact business...you tell me, which of those government organisations hold workshops at such venues and at that time?...you see what I mean?...we take the service to them...that is the cultural appropriateness I was talking about...."

Another said:

"..Look at the degree of connection or disconnection between the service provider and the recipient. The type of service these client groups like to access is not being supported the way the big government services are being supported..."

6.5 Summary – Intermediary & Support Organisation Perspectives

In summary, the customer experience in the use of targeted support services has been very encouraging for users of some voluntary sector business support providers. It is clear that some challenges exist based on literature and accounts of some BACEs, provider and enterprise agencies. The argument lingers though; the reported absence of specialist support provision is not entirely backed up with convincing evidence when balanced against the attitudes and practices of some BACEs in terms of usage, innovations and risk aversion to investment in innovative and/or specialist support services.

However, it is fair to infer that the central theme that emerged from the accounts from the enterprise agencies, specialist providers and the LDA seem to suggest that mainstream support service provisions is probably not adequate to meet the unique business support needs of BACEs. The rather cynical view of observers is that BACEs do not utilise business support services enough, whilst this is true to an extent, accounts of specialist support providers disagree with this proposition. Therefore, the argument is to seek to find a balance in the argument with a view to move the debate forward. However, the researchers view does add credence to the evidence of insufficient specialist business

support provision which is the central focus for the research questions. The policy implications and way forward is explored in some detail in the concluding chapter.

CHAPTER 7: CONCLUSIONS & IMPLICATIONS

This thesis has looked at three interrelated agents identified as key players associated with the debate around the disproportionate barriers facing BACEs in accessing and securing external business finance in London. The three agents are the BACEs (the focus group) referred to as the 'demand side'; the High Street banks referred to as the 'provider side' and an interface between the 'demand-provider' linkages.

The methodology adopted the use of both primary and secondary data sources to investigate the research objectives identified. The predominant methodology was the qualitative technique for obtaining information from all three agents, combined with some analysis of a large secondary data set (LABS) in order to provide a quantitative context for the more qualitative primary research. The adoption of this approach helped to bring together new perspectives and findings to add new meanings to some aspects of the research topic and on-going debate concerning alleged discrimination by some BACEs in London.

The main proposition under investigation is the commonly held view that BACEs face disproportionate barriers when seeking finance from formal sources (when compared with other small firms with similar features apart from ethnicity). To investigate this proposition, the research focused on a number of key personal attributes and behaviours of BACE owners that might help to explain why they face these barriers. The findings are summarised around the four research objectives identified at the onset of this study, focused on:

1. The influences of different aspects of *human capital* on the difficulties of BACEs accessing external finance.
2. The influence and relevance of *cultural factors* and *generational differences*
3. The *attitudes* of BACEs towards external business finance.
4. Identifying business support gaps and usage among BACEs

7.1 Gaps in Literature

This review looked at documented research about the experiences, attitudes and practices of BACEs with regards to the barriers they face when seeking external finance. The lack of adequate data on BACEs has been highlighted as most research in this subject area concentrates on the wider SME groups and only a handful of studies look at BACEs specifically. The experiences of BACE owner managers in the UK whilst seeking finance are varied and the nature of the problems they face are quite complex. It is also clear that the evidence presented in the literature reviewed suggests that banks and other finance providers have to recognize that the needs of BACEs are not solely related to economic factors, as cultural and other characteristics also need to be integrated in the decision-making processes.

BACEs themselves have a role to play in improving their access to external sources of finance and this is partly a matter of ensuring that they consider the full range of sources of finance available to them. There is a view which suggests that some BACEs tend to associate business failures with perceptions of discriminatory practices by the lending banks. However, the literature reviewed concluded that there was no tangible evidence of discriminatory practices from the banks (Fraser, 2005, 2008; BBA, 2002; Dhaliwal, 2006) to uphold some of the views held by some BACEs. Therefore, the focus for further developing literature in this subject area includes some of the followings themes:

1. BACEs as a specific category of a wider group are not particularly disadvantaged in accessing business finance when compared to other similar groups (Fraser, 2009); however, there are suggestions that some specific business sectors experience disproportionate barriers because of the type of businesses and the relative shortage of human capital of the owner managers.
2. Banks who base their judgements purely on business profiling claim that risky sectors/activities like the ones which many BACEs are found in are 'too risky' for investment and profitability. However, literature also suggests that the knowledge banks have of EMBs is relatively poor, which means that

the BACE groups are the least captured in their plans to ensure that all SMEs are adequately supported in growing the UK economy.

3. Literature appears to suggest that many well qualified ethnic minority individuals enter self-employment because they experience discrimination in the labour market and supposedly face promotional barriers and the 'glass ceiling' effect. It is unclear, how much information is known about BACEs with respect to the subject of attitudinal failings which affect business development.

The gaps found in the review of literature can be associated to lack of sufficient qualitative research and lack of insider accounts from the specific BACE category of SMEs.

7.2 Summary Findings & Implications

7.2.1 Human and Social Capital

The human capital in terms of academic qualifications attained by BACEs influenced many of the decisions and experiences the business owners faced when seeking external finance. The findings of this study suggests that the shortage of human capital in terms of the type and levels of education of the business owners, coupled with their choice of finance, were significant factors affecting their probability of securing external finance. From the bank managers' perspectives, the qualifications of the business owner was not a determining factor on whether or not an application for funding would be successful; in actual fact, this information was not required by the banks. It was notable that the quality of the applications and the presentational skills of the owner-managers could influence the banks decision. It was also notable that there were some 'knowledge gaps' about the loans eligibility and processing criteria amongst a small but significant number of the BACEs, particularly amongst those owners with lower qualifications. The banks suggested that the inability of some BACEs to identify and seek an appropriate type and amount of finance, commensurate to their needs and affordability, was a clear reason for the difficulties some of them faced.

It is however worth noting that there were some BACEs, irrespective of attaining higher qualifications still felt they would face discrimination in seeking finance because of their ethnicity. There was no evidence to support this view as it was impossible to review 'real life' applications from the banks to ascertain this claim during the field work. The bank managers were only prepared to talk about the difficulties that small firms in general experience as they do not particularly collect data on specific ethnic groups. Interviews with the banks highlighted that, many small firm owners with 'financial skills' and management experience in finance subject areas were more forthcoming and articulate with presenting a good business case and were more likely to meet the stringent bank requirements and loans assessment conditions. Other research (Scott, 2008, Hussain & Matlay 2006) supports the argument that financial skills shortage is a gap for SME's in general.

7.2.2 The influence of Cultural Factors and Generational Differences on Attitudes

The evidence from this study suggests that cultural and generational factors influence the attitudes, behaviour and experiences of BACEs in terms of accessing external finance. The experiences of where BACEs were trained (academic attainment and development) contributed to their beliefs, confidence and views about seeking external finance. Another critical influence on attitudes is the 'ethnic enclaves' created, inadvertently by the nature of many BACE business locations and the sectors/activities that they specialise in which make their businesses 'risky' for debt financing. An interesting observation is that the businesses rooted in these communities have higher rates of failures due to lack of finance for growth and innovation (BIS, 2011 - webpage).

Again, the relationships and informational effects is a key explanatory factor that has emerged. Some BACEs trading in deprived communities that are characterised with 'risk prone' (in economic terms) businesses often nurture attitudes of discrimination. This is because of the experiences of 'business failures' attributed to the 'nature' of their businesses that are anchored within 'marginalised markets'. The alternative explanation is the low 'human capital' attainments in some cases, which limits the business growth options for these kinds of business.

It is worth noting that the alleged discrimination by these groups can only be regarded as their perceived view as no evidence emerged during the interviews with the banks and intermediaries to support this notion. Many respondents indicated that a culture of deprivation creates a lingering 'feel factor' of 'defeatism' because of their backgrounds, experiences and other deep-rooted beliefs of racial bias in certain aspects of life. This study probed further and found that there is an increasing 'positive shift' away from these 'enclaves' that eventually eradicates such perceptions, invariably linked to the recognition and significance of human capital attainments.

There were also small pockets of 'gender' variability in the explanatory factors which emerged; for example, female 2nd and 3rd generation BACEs were slightly more inclined to dismiss the view that discrimination by the lending banks exists. Their male counterparts, especially the 1st generation entrepreneurs had a contrary opinion on this, because they suffered a relatively higher barrier because of their lesser understanding and integration into the systems. It is then possible to infer that, the generational factors play a small but significant part in influencing the attitudes of BACE owners alongside some other factors, such as cultural orientation. Many 1st generation respondents interviewed indicated that their past experiences settling and growing up in some deprived areas of London's inner city as immigrant entrepreneurs (such as in Lambeth and Southwark) leaves them with deep-seated memories of racial bias, prejudice and disadvantages which can play on their minds when seeking and accessing public services. These feelings of racial bias causes many of the Black business owners to limit their scope and confidence to expand and grow their businesses, leading them to become easily discouraged and not bothering to seek finance and support. Therefore, these categories of BACEs are more likely to fail or record minimal success rates when they do try.

When the human capital and social capital attainment of some BACEs were analysed, it transpired that even some of the highly educated respondents share these views, which inevitably influences their attitudes, behaviours and having an adverse effect on their confidence levels. These 'deep-rooted' feelings of 'unjust' past experiences do obscure the judgement of some BACEs and therefore widens the barriers they

think they face. It is therefore possible to infer that the difficulties they perceive in the market place may be seen as 'irrational'. Knowledge about the impact of 'cultural' and 'generational' factors on the ability of the BACE group is limited, however some studies (Collard et al., 2001; BoE, 2000; CEEDR, 2005; CEEDR, 2008) has reported that SMEs in general exhibit discouragement from seeking external finance. The 'discouraged borrower' concept is described as the reluctance of the firm owner in approaching 'formal sources' of finance owing to certain personal characteristics and/or past experiences, and as such the BACE 'feels' it would be futile to make an attempt to seek finance.

7.2.3 Impact of the Credit Crunch

The literature on the impact of the 'credit crunch' is only just beginning to emerge in recent years, but even so there is limited previous research on the impact on BACEs as most studies have focused on the effects on the wider SME community. This study did coincide with a time of economic downturn which impacted on all business sectors in London, irrespective of size. The features of small firms in general, irrespective of ethnic connotations, predispose them to facing stiff competition in the competitive economic environment. The findings highlighted the difficulties facing all businesses, particularly smaller firms. As expected, Black businesses appear to be more vulnerable to credit denials, not just because of their personal characteristics (such as ethnic orientations per se), but because of the peculiar nature of small firms in general including 'size', 'sector choices' and some of the factors already discussed. In the case of the finance providers themselves, they are compelled to respond to the increased regulatory requirement imposed on them, which means that small firms would inevitably experience further difficulties as a result of these changes. Interestingly, this study showed that many of the respondent owner managers showed resolve in coping with the effects of the credit crunch, whilst a small but significant proportion suffered losses and considered closing down their business.

This is not peculiar to BACEs but applies to small firms generally. Interviews with the banks suggested that the effects of the credit crunch applied virtually to all business sizes, but at varying proportions commensurate to size and scope of the

business. For example, technology and manufacturing firms were less likely to suffer as much as those in retailing and personal services. The interviewed bank managers however admitted that business loan applications had fallen sharply and that relationships with EMB firms in particular had further worsened. This position was supported by some of the few surviving third sector business support providers who said that BACEs now found it more daunting to approach the banks, with many being more concerned with seeking advice on how best to survive. Three major themes stood out from the accounts from the 30 BACE owner managers. These included what they felt were the biggest challenges resulting from the impact of the recent economic downturn.

1. **Tax Breaks;** The most referenced problem was that most (over three quarters) of the owner manager respondents felt strongly that the government are doing very little to assist vulnerable businesses. The most frequently mentioned example given by the respondents was the stifling effect of tax and business rates which they felt could have been reduced and/or pegged at a lower rate to enable vulnerable businesses absorb the impact of a low cash flow and in effect 'ride the storm' until things improved.
2. **Cash Flow;** was another major challenge for most of the BACE owner managers interviewed. This was the second most mentioned problem for businesses as their customer base began to diminish. Businesses that were concentrated in the 'ethnic enclaves' were the most affected. The impact of the cash flow challenges threatened survival and led to reluctant staff cuts, down scaling of operations and continually reducing overheads to the barest possible limit. The customer base for BACEs in these sectors is predominantly serviced by low income earners within the ethnic minority populations in their respective communities in London. The Small Enterprise Research Team (SERT) customer quarterly surveys continue to show a progressive fall in sales and employment in these sectors which contributes to falling overall demand and spill-over concerns of the credit crunch. Gray (2008) stated that "many of the smaller firms have shown in the past to be very resilient in recessions..." this is true in the case of many BACE respondents interviewed. He also said: "...they cut costs, reduce capacity and

shed staff.....they keep their businesses ticking over, waiting for a change in fortunes for a recovery”.

3. **Survival action**; was the third most dominant theme that emerged from the interviews as a way of ‘riding the storm’. Twenty-four (24) of the BACE owners stated that ‘staying in business was critical and more important than seeking finance for growth or expansion. Interestingly, the 2nd and 3rd generation entrepreneurs were least concerned or less threatened with the consideration of closures than their 1st generation counterparts although the reasons for this were not clear cut. There was some suggestion that the immigrant entrepreneurs exercised more caution and were unable to network effectively to find more clients. As a result, reduced cash-flow threatened their credit ratings further because they were not meeting their financial commitments. Interestingly, it was noticeable that the female 2nd and 3rd generation entrepreneurs (i.e. those born and/or raised in UK) appeared more confident in ‘seizing’ opportunities for innovation and growth despite uncertainties. This further confirms the slight advantage they have by virtue of their UK orientation compared to the 1st generation immigrant entrepreneurs.

7.3 Supply Side Perspectives

Interviews with the five selected banks focused on finding out what their views were concerning the alleged barriers facing BACEs and whether or not BACEs might be disadvantaged by the way decisions on loan applications were taken within their banks. The other aim was to find out what their views were for ‘bridging the informational gaps’ between them and the BACEs.

1. Centralised Decision-Making Processes

The results obtained from the interviews with the banks suggested that the centralised decision-making processes for loans applications might have posed a significant barrier for some BACE business case proposals. Some of the respondent bank managers suggested that relationship lending based on trust and track record may have improved the applicants scoring, but the detachment of the relationship manager from the centralised application process may sometimes lead to the possible

refusal of the loan application. This study suggests that the crucial factor in determining the effects of localised decision-making processes depends largely on individual bank manager practice and knowledge of the BACE business and owner manager.

The continued shift away from localised decision making to centralised decision making has further alienated local branch managers from the process, therefore, losing those 'informal' and useful knowledge of the BACE's business attributes, qualities and aspirations. This appears to be a response by the banks to the financial crisis and the need for much tighter credit rationing. Two of the five banks surveyed indicated that the centralised decision making did not entirely eradicate the links with ethnic minority communities and the building of trust, which is dependent on experience, knowledge and perceptions of the individual processing bank manager. These discretionary tendencies are still being exercised, but to a lesser extent as more and more decisions are made centrally by computerised and automated systems.

2. Information Resource on BACEs

The absence of a robust intelligence/database on BACEs was acknowledged by the banks as a major problem, as was also the case for most support agencies. This resource gap limited access to useful data about this group. The lack of (or incomplete information) about the unique factors influencing BACEs makes the processing and scoring of loan applications more difficult, leading to finance-gaps as earlier suggested. Banks and business support agencies should consider focusing on information capture (including sensitive data such as ethnicity) that can help build their understanding of the factors that may put the BACE applicant at a disadvantage. Three of the five banks agreed that lack of a unified database of BACEs in general is a critical limitation when considering personal attributes (where necessary as they often would not require these). The banks suggested that there was scope to 'fortify' the communication links between the business customer and the bank. There were also suggestions that BACEs were more likely to be frustrated with the perceived bureaucracy involved in making a finance application, preferring informal relationships and a minimum paperwork instead. In addition, the reluctance of the bank to talk to potential business customers until they have

produced viable business proposals deters many keen BACEs from progressing with making an application.

3. Banks & Grassroots Engagement

There were some noticeable gaps in bank managers' knowledge of the needs of BACE businesses and their awareness of cultural issues for these groups. Not surprisingly, those banks that had a fair representation of loans processing or business development managers of African or Caribbean origin had a better understanding and subsequently fostered good banking relationships with customers, whereas the opposite was the case in some banks with solely white and/or Asian managers.

It was also suggested that advocacy support and intermediaries that are specially focused on servicing the disadvantaged groups were desirable. Bank managers are well aware of the importance of intermediaries for getting new business in ethnic communities, as well as helping to bridge the information gap that exists between the demand and provider sides. Examples within the Asian communities were cited as a possible model for the BACE community. It was clear from some of the interviews that some bank managers had very little or no links with the BACE communities and therefore, building and developing trust was likely to prove to be a considerable challenge.

4. Ethnic Enclaves

The relevance and impact of ethnic enclaves has been highlighted in several aspects of this thesis. Market failures have been associated with ethnic enclaves where there appears to be an over-reliance on co-ethnic customers. Some of the possible explanations for this claim can be attributed to the business owner's inability to access finance. There are a number of explanations already suggested earlier including the 'discouraged borrowers' effect as a consequence of 'attitudes'.

Other reasons are as a result of the risky nature of small businesses and to a larger extent, lack of innovation. These factors may inevitably limit the chances to seek formal sources of finance and therefore, limiting the potential to move out of the 'marginalised markets'. It was also evident from the interviews with some BACE

respondents (chapter 5) that there was a need for banks to engage actively and take positive steps in penetrating these marginalised communities.

7.4 The Gaps Identified in Business Support Sources and Usage

The objective was to review, analyse and seek explanations for the reported low take-up of business support amongst BACEs. The business support providers are referred to as 'intermediaries' within the context of this research, because they are seen as a possible interface between the 'demand' and the 'supply' sides in the market for business finance. The findings from this study suggest that both public and private sector funded business support programmes are perceived as inadequate in meeting the specialist needs of BACEs. Furthermore, abolition of the LDA for example, makes the gaps in business support more apparent.

Part of the research objective for this study during the in-depth interviews and review of secondary data was to evaluate whether BACEs engaged business support adequately and to ascertain which aspects of the existing business support policy framework met the specialist needs of BACEs as there is a view that existing 'generic' support services do not satisfy the desired expectations of their users.

All the BACE respondents (30) interviewed used an accountant at one point or another during the business operation. This was as a result of the statutory requirement to submit company accounts to the Companies House. In many cases, the BACEs did not actually maximise the range of services offered by the accountants in areas such as business planning and cash flow projections to enhance their business proposals to the banks. The reason for this was not readily clear, but some suggested that the costs charged by professional services were too high. It can be inferred that in some cases, BACEs did not invest adequately in professional support services as much as other ethnic minority entrepreneurs did.

The use of bank managers (22 respondents) was the second most referenced source approached for advice, whilst solicitors and business colleagues/friends or family were the 3rd and 4th most common sources referred to. When the generational and gender influences were considered, it was concluded that there was insufficient evidence to suggest that gender or generational factors influenced the choice of

business support source(s). However, the 1st generation male BACEs relied more on the 'informal' sources of support and advice – business colleagues, friends or family members.

When the level and type of the qualification attained by BACEs was analysed in relation to the source(s) of support approached/utilised, some interesting findings were found. Usage of government sponsored (public funded) agencies recorded the lowest usage (6 respondents), despite the higher qualification levels attained by the group. What this suggest is that, those entrepreneurs with higher qualifications are no more likely to use public support than those lacking qualifications or lesser levels of attainment.

Notably, there was a high level of awareness (23 respondents) of the government sponsored support agencies such as the Business Link and the Small Business Service amongst those with higher qualifications. The underutilisation of formal sources of business support does exist, even though many were aware of the range of support sources available within the public and enterprise agencies. The explanation for the underutilisation cited by the BACE respondents themselves in many cases suggested that the support services offered by the statutory/public sector providers were 'unsuitable' and did not meet their specific needs. There seems to be some gaps in the understanding of the availability of many of these support services; it either means that the business support providers were not reaching the BACE communities in an effective manner or that the BACEs themselves were not 'looking out' enough for help and advice.

The subject of 'attitudes' was revisited and it emerged that this factor tended to 'cloud' the decision making of a small but significant proportion of BACEs resulting in the discouragement in seeking the help, information and advice of professional business support services. Many BACEs do not wish to pay for valuable professional support services despite recognising that they could be beneficial to the business.

7.5 Contribution of the LABS Review

Chapter four (4) presented the findings and analysis of the 2007 data set of the last London Annual Business Survey (LABS). This review compared some of the

findings and interpretations of the preceding years (2003 – 2006) surveys. The LABS was the annual survey of private sector businesses in London that was undertaken by the London Development Agency and Business Link 4 London (BL4L) since 2003, the last one being in 2007. The survey findings were based on six ethnic categories including Black-owned businesses and therefore provide a unique secondary database for use in this research. The LABS 2007 dataset analysis identified four key themes that were further investigated during the interviews with the three principal agents.

The LABS review helped to corroborate some of the empirical research findings relating to the ‘demand side’. Some of the findings from the primary research which were similar to the LABS review are grouped into four areas below, whilst a number of divergent views were equally identified:

1. The survey analysis supported the notion that BACEs were relatively qualified than their counterpart small firm owner managers, and this was consistent with other studies (Fraser, 2007; Nwankwo et al., 2013). The challenge with the LABS survey was that the questionnaires were not designed to identify the types and levels of the qualifications attained by the respondents. The methodology adopted for the primary research helped to probe further during the in-depth interviews to identify the levels and type of qualification’s attained by the BACEs.
2. The variations in the range/value of finance invested related to ‘size’ of the firm rather than the owner manager ethnicity. This is consistent with the primary research findings in chapter 5 of this thesis and other studies too; many of these have already been cited in the literature review chapter of this thesis. The point of divergence in the comparison of the LABS review and with the primary research relate to the variations in the ‘sources’ of finance sought rather than the ‘values/amounts’. For example, many of the BACEs interviewed had an over reliance on bank loans whilst the LABS review identified alternative sources of finance such as credits, cooperative, family wealth. The implication for this is that BACEs need to be able to appraise the

appropriateness of the type, amounts and sources of finance required, and in so doing, refusal levels might be minimal. This is because the level of 'risks' are curtailed when smaller levels of loans/funds are sought.

3. The LABS 2007 analysis also highlights the 'discouraged actions' of some Black owner managers and the possible effects from this. The issues and implications for the 'discouraged borrowers' is a topical one for this research and this phenomena is supported by the similar findings that emerged from the primary research, as in the case of many referenced literature. Over half of the Black owned businesses surveyed (LABS 2007 dataset) did not seek bank finance as reported in other studies (Fraser, 2005; 2009). Therefore, the alleged 'discriminatory practices' by the lending banks towards Black owned businesses are largely unsubstantiated. It was also evident that, Black owned businesses underutilised alternative sources of finance, such as social funds, government grants and other community focused finding initiatives. The reason for this can be attributed to the 'knowledge gaps' of the finance market place and/or lack of innovation.
4. The discussions around 'attitudinal behaviours' is central to the argument presented throughout this thesis. The LABS survey treated this concept as a 'feel factor' (which can also be interpreted as perceptions). There were some justifications evident from the findings that supports the view that the qualifications attained (not necessarily the types or levels, as these were not captured) had a direct bearing on 'attitude' in trying to interpret actions and behaviours towards seeking debt finance and utilisation of business support by Black owned businesses. The LABS result analysis only provides indicative evidence to make this observations, but not sufficient to make generalisations. However, the in-depth interviews carried out as the alternative approach compensated for the weaknesses of the adopted methods of the LABS.

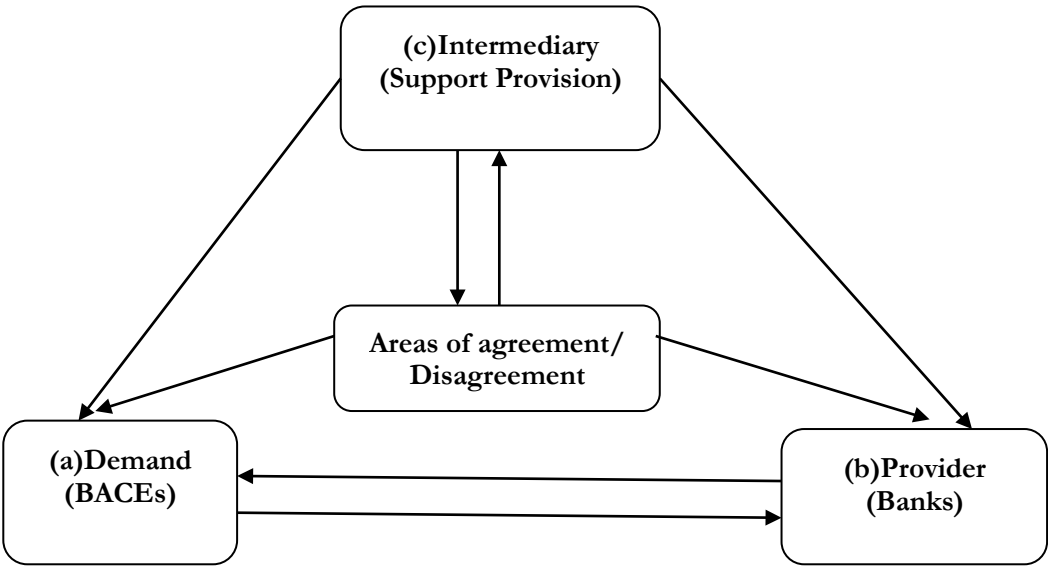
The LABS analysis therefore served as a 'sounding board' for the research objectives of this study; added to the justifications of the preferred choice of methodology and

builds on themes that emerged from the literature review findings in chapter two. This secondary data review phase served as a reference for gauging the ‘extent’ of the reported barriers faced by BACEs concerning access to finance in a large survey of London businesses – the focus for the empirical research.

Some learning experiences from some of the ‘limitations’ of the quantitative methodology adopted for the LABS empirical work also helped in the consideration and design of a ‘mixed methodology’, which adds originality to this study. For example, the surveys (LABS), on its own were not effective methods to adequately cover many aspects, which otherwise, were achieved utilising qualitative techniques. One of the weaknesses of the LABS exercise was that, it did not capture many underlying reasons or factors which influenced ‘cognitive behaviour’ or ‘attitudes’ of respondents.

One of the original features of this research design was the adoption of an approach which drew together information and insights from three key agents to provide a way of comparing and differentiating the various opinions, perspectives and insider accounts obtained from the in depth interviews. The model below is a pathway considered for triangulating the ideas, themes and lines of arguments analysed and presented in this concluding chapter.

Figure 7: Triangulation Pathways



(Source: Author)

Fig. 7 above, maps out the interrelationships between the three key agents considered in this study. The specific themes that emerged from the empirical work was referred to in chapter three as they fall under the three key subjects – demand, supply and intermediaries. The middle point signifies the connecting themes (i.e. areas where there seems to be agreement amongst the three key players). Whilst this research seeks to extend and improve upon past work, there are some new and emerging issues of disagreements. The interpretations presented and discussed in this exploratory study so far show that the three principal agents are interdependent on one another and the absence of any of the three from this research would provide an incomplete picture. What this means is that overcoming the barriers of accessing external finance are reliant on changes to the practices of all three agents as none is perfect and all have their shortcomings.

The actions of all three agents are influenced by the same factors: firstly, ‘information gaps’ in terms of what information is known about the other agent – this appears to be a key problem which invariably influences how each agent relates with the other. Secondly, the ‘perceptions’ arises from the ‘knowledge gap’ between them. In other words, the void caused by this gap determines and/or influences how one agent views the other. That is to say, when the information/ knowledge gap reduces, the perception that one agent has of the other becomes more positive. Thirdly, the interaction between the agents can be affected by the impact of ‘external stimuli’ such as the introduction of computerised loan application processes, the credit crunch and the government’s ‘tightening up measures’ affecting banking activities. For example, conditions for assessing credit ratings is becoming increasingly stringent and the parameters for evaluating ‘risk’ has become increasingly difficult for small firms particularly. These stimuli are largely out of the agent’s control. This point is significant in inferring that the claims of discrimination or unfair treatments claimed by the BACEs were not proven and can be said to be ‘irrational’. However, it is also fair to presume that rationality may be deemed possible within the limits of their knowledge and understanding.

There are also certain areas of agreements which emerged during this study. For example, the absence of a robust ‘database’ for BACEs is commonly seen as a

disadvantage and often a barrier when presenting statistics and therefore, limiting policy development. Statistics for BACEs are often aggregated within the broader SME groups, making it impossible to evaluate and measure representativeness. The scarcity of qualitative research to further improve on existing knowledge is another aspect that emerged as areas of concern and therefore creating a void about those personal attributes which might have been used in enhancing loans processing as 'positive' action. However, financial risk management approaches do not consider or use these 'soft data' within centralised processing of application.

Having suggested some 'push and pull' factors that could be useful in explaining some of the reasons and views limiting the understanding and actions of the demand-provider perspectives, it is necessary to consider a few factors that brings the divergent views to a 'centre point'.

Knowledge gap of the market place; attitudinal behaviour influencing perceptions and the human capital attainments appear to be some of the major issues influencing all three agents' views and actions. These factors can be influenced and or changed positively by policy instruments and increased awareness between the three principal agents by further research. Some of these factors are peculiar to the individuals such as cultural and life influences that influence behaviour, these are subjective measures and very abstract in nature. Perceptions are a function of experience but these can be balanced with increased knowledge and education. Whilst the intermediaries are designed to be unbiased, their functions are hampered by a number of external stimuli that can only be controlled and/or managed by policy changes. For example, business support gaps are influenced by wider government policies in public service cost savings strategies. The withdrawal or underfunding of public sector business support services a significant impact on the quality and scope of business support services.

7.5.1 Contribution to Knowledge

The debate about the difficulties experienced by BACEs is an on-going issue, attracting continuing attention within academia, policy developers and the business entrepreneurs themselves. This study extends new thinking which uses a new methodology to concurrently investigate three principal agents (demand, supply and

intermediaries). Some of the key findings have been presented and discussed in chapters five and six. Some of the salient findings that has not been adequately featured in previous studies concerns the failure to take account of the distinctive nature of BACEs as a separate entity, rather, they were often lumped together with the ethnic minority groups. This study was able to look at the BACEs as a separate entity and therefore was able to conceptualise new themes for 'triangulation' in a way that brings together consensual themes; such as the significance of the human capital attainment of the BACE owner manager and how this influence their attitudes, which in-turn explains some of the reasons BACEs face disproportionate barriers when seeking formal finance. Other studies tend to dwell on 'numbers' rather than 'persons' and this means that findings do not eke out the real issues BACEs face because of the 'statistical insignificance' of the population (BACEs) within the wider SME population. This study, hopefully, begins to encourage further studies to look at the BACEs from a holistic perspective so that the real issues can be addressed and supported.

The 'constructs' (human capital relevance, attitudinal behaviours, culture, ethnic enclaves and the impact on access to finance) that emerged from literature were looked at in some depth by using these as parameters of investigation during the in-depth interviews. It was found that these constructs had a direct impact on the perceptions of the BACE owner managers which consequently affected their chances to secure external finance. Many researchers (referenced within the body of the discussions) tend to lump BACEs within the broad SME categories, therefore skewing the real issues affecting this group. The novel approach for investigating the three key/principal agents in this study puts the BACEs in a distinctive category/group, and therefore, throws up real issues and areas for further research.

It is evident that there is no real evidence to make sweeping generalisations claimed by the BACE community themselves that, there exist 'discrimination' in the market place, but rather, the key finding that is important and new is that studies that investigates the difficulties black businesses face in accessing external finance requires a systematic assessment of some personal attributes of the group to be able

to find meaningful solutions for policy development and to effectively reduce the reported barriers. The findings from primary research is that of 'self-made' awareness based on attitudes, culture and human capital shortfalls as determining factors which exacerbate the barriers or challenges they face in accessing formal sources of finance. It is often a 'blame culture' for entrepreneurial failures rather than discrimination in the system at the levels claimed by many BACE owner managers.

7.6 Policy Implications & Recommendations

An important objective of this study was to discuss the role of policy development and to evaluate the divergence between policy and practice on factors affecting access to finance for BACEs. There is growing concern that many business support agencies and enterprise agencies have been abolished by the government as part of its drive for public services efficiency savings, and that alternative options are limited. Whilst there are gains from these cost-cutting actions, it does create further gaps in the provision of support services to small businesses, particularly those that face the most difficulties such as BACEs. The following focus on some policy implications and recommendations:

1. Given the heterogeneity of the EMB community and the specific features studied in this research, it is important for policy makers to develop support systems in conjunction with the banks. Evidence from this study suggests that some BACEs, for several reasons already explored and discussed, are more likely to be rejected when applying for bank loans. For some, once established, are more likely to experience business failure resulting from lack of business finance. Experts in the policy research subject areas (Smallbone, et. al., 2003; Ram & Deakins, 1995) have led the way and recommended policy instruments that have sought to improve access to finance relating to SMEs and EMBs generally, but the efficacy of the recommendations is yet to be appraised. Some of the pioneering work recommended a number of guidelines for future policy, including the significance of diversity within mainstream provision; the need for an engagement strategy; improved

access to finance; promotion of sectorial diversity (positive action) and better evaluation systems for loans processing. The continued reporting of the barriers faced by BACEs remains largely a problem. The reason for this perhaps may have been due to a failure for existing business support mechanisms and the existing financial institutions (Banks) to implement many of the interventions recommended by experts. It is necessary for policy makers to reconsider and re-integrate its strategy with the sparse mainstream and specialist support provisions that exist currently. A re-engagement strategy is desired in a way that engages a wider representation of the BACEs which currently appear to be relegated, by their own volition, to the 'ethnic enclaves/communities' already discussed. Specialist support services are most effective when representatives of the user groups (BACEs) are empowered and involved.

2. Chapter six presented many instances which suggest that a large proportion of BACEs showed a tendency to be reliant on informal sources for financial advice. The provisions and access to impartial expert financial and business advice increases the chances of the entrepreneurs securing appropriate finance, but the lack of investment and confidence on the side of some BACEs is still a problem. The Government should consider subsidising professional fees of specialist services available to disadvantaged BACEs, particularly those trapped in marginalised communities.
3. The impact of negative perceptions (as a result of low human capital) and misinformation between the BACEs and banks is a significant factor to note. There should be a 'joined-up' approach involving BACE representative business support organisations, even though the lack of a database of these organisations is a major problem. The financial institutions and the government need to create networks targeting and supporting ethnic groups. This initiative(s) should be geared towards dismissing perceptions and propagate good practice amongst the principals - (banks) and BACEs (Client) relationships. There is evidence from this study that the BACEs attitudes towards the problem of accessing external finance have tended to accentuate

the extent of the difficulties involved (Fraser, 2007). The consequence of this is that external finance is not sought enough with businesses suffering from the discouraged borrower effects which can become a self-inflicting disadvantage. Therefore, targeted education (especially relating to finance and management) and specialist business support should be offered to reduce disengagement from formal sources of finance.

4. The significance of human capital attainments (in terms of type and levels of qualifications) of BACEs has been highlighted in this study. The evidence that inadequate financial literacy appears to impact on the extent of which BACEs can appraise the appropriate source of finance is also clear from the findings. Ram & Deakins (1995) recommended many positive steps for entrepreneurs to raise awareness for the forms of finance available that were suitable for marginalised groups such as BACEs. There is evidence from this study that many of these resources are underutilised and therefore, government and support providers should continue to propagate these efforts to ensure that a high level of financial and management skills acquisition is available to BACEs.

5. Positive Action for Development – Banks’ Perspectives

The supply side provided some insights into the positive actions that were needed to redress the ‘informational effects’ identified by all three agents as a key issue. Table 21 below annotates the development and policy development work already being adopted by the respondent banks.

<u>Banks</u>	<u>Suggestions/Policy intervention</u>	<u>Comments/references from interview</u>
Bank A	-Establish more BACE support groups as partners with the banks -Expanding Communities served to enhance ‘risk’ profiling by consumer relevance	<i>“... BACEs are seen to have very little social capacity compared to other ethnic minority firms, the reasons may have to do with the mistrust they may have within their own business circles....I think they need to expand their market place and engage other ethnic groups to expand their horizon...”</i>

<u>Banks</u>	<u>Suggestions/Policy intervention</u>	<u>Comments/references from interview</u>
Bank C	<p>-Promote 'alternative funding sources</p> <p>-Improve local 'databases' of BACEs</p> <p>-Creation of BACE databases accessible to financial services</p> <p>-Promoting financial education</p> <p>-Take-up of specialist support offered by bank(at a minimal cost)</p>	<p><i>"...the more disadvantaged groups by virtue of the attributes which make small firms 'risky' should be encouraged to seek alternative sources of finance such as micro-finance initiatives which require less stringent eligibility criteria. It appears that there may be overreliance on debt finance....</i></p> <p><i>...availability of a localised databases of EMB's is an area that research has repeatedly suggested, but really, very little has been done in that regard...perhaps, BACE advocacy groups can commission such projects and lobby the London Development Agency for a national database that will inform financial assessments...</i></p>
Bank D	<p>-Enhance links with BACE communities/consumers of services and goods,</p> <p>-Exploring alternative funding sources</p> <p>-Availability of monitoring data by the LDA with clear links and accessibility to financial planning</p> <p>-Educating BACEs on lending criteria and role of external controls.</p>	<p><i>"...High Street banks sometimes appear to be quite detached from BACE communities, and the reasons, in my opinion are to do with the sectors and communities within which they operate...</i></p> <p><i>"....many times, I feel that some small firms make wrong choices by seeking debt finance to either start or grow their businesses, this is because the minimum qualifying criteria in areas of equity, credit scoring and lack of financial education is the first hurdle that is often failed.</i></p> <p><i>I think, seeking alternative sources such as social funds, community initiatives and similar non-formal sources of finance may be suitable, but of-course, the underutilisation of appropriate advice and/or misinformation on both the demand and supply side is evidently a serious matter to look at from the policy perspectives...</i></p>

<u>Banks</u>	<u>Suggestions/Policy</u> <u>Intervention</u>	<u>Comments/references from interview</u>
Bank E	-BACE Database -encourage use of alternative funding -Mentoring Schemes managed by BACEs (bank funded)	<i>"...lack of information of the sectors of aggregation of BACEs can be seen as an area to explore in some details...centralisation of decision making processes is a huge disadvantage to small firms as the scoring indices are very small and tagged as 'risky'the fact of the matter is that the banks cannot base loan applications on sentimental logic as the computerised systems are designed and configured to evaluate risk and profitability, if these two conditions are not met, there is no room for manoeuvre... ...I think, better information exchange between the demand and supply of finance is a key gap in the chain, both parties have a duty to improve this...but off- course, a wider policy development ...</i>

The banks engagement with the BACEs at various levels (strategic and operational) highlights the efforts being made by the banks to reach out to user groups. The aim is to change the perceptions of BACEs suggesting that the banks were not doing enough and in many cases perceived as being discriminatory towards them. The roles of intermediaries needed to be more responsive by acting as an interface between the 'client – partner' relationships concerning access to business finance from external sources.

Policy intervention should be considered from a multi-faceted dimension. Firstly, business intervention should be considered as an aspect of market intervention (strategic level) with the principal aim of helping to secure growth and sustainability for Black business in the UK. Secondly, BACEs themselves need to be accorded a more vital role in the advisory processes than is currently the case. The current arrangements suggest that where government-run business support providers are more responsive to bureaucratic structures rather than meeting the specialist needs of the entrepreneurs.

Some respondents suggested that some of the government sponsored support providers – the LDA (now abolished); Department for Business, Innovation and Skills (BIS); Business Link – are perceived to be dealing with businesses as a *statistical count* with a view to satisfy and secure grant funding without actually adding value to the business enterprise development in tangible terms. This notion is a testament to the ‘attitudinal’ shortcomings that have been discussed in many aspects of this thesis. The many Government aided support agencies offer a great deal of support to all businesses, the issue for BACEs is that of ‘underutilisation’ and/or knowledge of the existence and relevance of the support services offered.

7.7 Limitations and Areas for Future Research

This study is not without its limitations, as has already been recognised in previous sections of this thesis. This study is a relatively small scale research based on 30 case studies of purposely selected BACE owner managers in London. It is therefore impossible to generalise the findings in this study to the wider population of London BACEs. Nonetheless, the findings presented and discussed provided useful insights into the perspectives of the principal agents studied (i.e. BACE owner-managers, banks and intermediaries). The new dimensions in the research design, the specificity of the select group and the three agent framework adopted for obtaining insider accounts were adopted to compensate for many of the gaps and challenges encountered such as lack of adequate data and previous research on this topic.

Further research that focuses on BACEs in particular and ethnic minority businesses more generally is much desired. Research in the subject area of accessing external finance should be separated from the generic SME types, as existing information on many issues impacting on their accessibility to finance is submerged in the findings generalised about SMEs. As a result of this study, a number of areas are highlighted for future research:

1. Attitudinal Studies

Measuring abstract concept such as attitudes is a challenging proposition. From this study, attitudes of BACEs have been reported to play a key role as an influencing factor in their self-image and how their behaviour predisposes them to encounter disproportionate barriers compared to other EMBs with similar features. Some perceive themselves as being discriminated against and use this to mask shortfalls in human and social capital attainments, which eventually manifest in business failures.

2. Managing Formation of Ethnic Enclaves

The American history about evolution of immigrant entrepreneurs is well advanced, but the UK contexts require further focus. Whilst it is difficult and almost impossible to prevent formation of marginalised communities, further efforts can be made to educate the specific ethnic groups which tend to congregate in these marginalised communities. This concept appears to be an area under researched with reference to the effects it has on the attitudes of BACEs as discussed in this report. Many references have been made to this factor as posing a significant negative impact on 'risk' appraisals for business growth and therefore banks may have to revitalise their engagement strategies with these communities. Research should seek to develop effective support systems that encourage 'break-out' mechanisms away from these enclaves within Black communities; changing the landscape for profitable enterprise for marginalised groups. The contributions of Black businesses have been highlighted and therefore, the contributions to the UK economy cannot be taken for granted. The issues affecting this group need an enabling environment and certainly, the identity of the specific category within the wider SME requires separation for the issues and challenges they face to be tackled.

3. Lack of a Database of BACEs

The lack of a centralised database for BACEs poses a significant problem for providers of finance – High Street banks, who are unable to obtain full information including personal characteristics that may support or help

balance outcomes of 'credit ratings' and other assessment indices when processing loans applications. One of the problems with this is the 'confidentiality ethos' and 'codes' which appear to hinder progress in this area. Government policy needs more work in this area if a level-playing field is to help banks and business support services redress the challenges caused by information asymmetry relating to business finance. The existing information often relates to the wider SME and EMB groups, but the data for BACEs particularly is not easily accessible and this may be highly useful for developing effective policy interventions as suggested by Ram et al., (2003). Having said this, there could also be negative views/claims of discrimination amongst other (non-ethnic) groups.

4. Funding for Specialist Business Support

There is a scarcity of specialist support for BACEs and there is need for funding to stimulate BACE-led support establishments. There needs to be a rethink of setting up specialist business support organisations in the UK as there is clearly a need for this. It is evident from this study that very few mainstream business support services still exist, particularly those that specifically address the support needs of BACEs. Following the abolition of the LDA, there needs to be some research to appraise the impact of the gaps created as a result of the government's action. From this study and other research, generic support services do not meet the needs of BACEs, and in many ways, the lack of adequate BACE-led support organisations (the few that were available in certain boroughs such as Haringey and Hackney have closed down) have seen funds cut and have become non-sustainable. An engagement strategy at local government levels with the disadvantaged communities can create a much needed links between Black entrepreneurs with banks and policy developers.

5. Audit and Cohort Studies

A focused and comparative study of BACEs alongside a cohort of other EMB types on accessing different forms of external finance in the post

financial crisis period is needed. Access to finance has been the one major problem attributed to these groups in much research, but seeking explanations that can support and develop interventionist policy is sparse. There are limited 'audit studies' to enhance the knowledge in this area and more research by the BACE representative groups themselves may provide new findings to explain and/or simplify the relationships and behaviours of BACEs.

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
9. APPENDIX

Appendix 1: Enterprise Agency - Functions and gaps amongst selected voluntary sector support provisions					
Enterprise Agencies	Brent Business Venture (BBV)	African Caribbean Business Support (ACBS)	East London Small Business Centre (ELSBC)	African Caribbean Business Network (ACBN)	Haringey Business Development Agency (HBDA)
Scope	-Business Support agency -1:1 advice, mentoring -sign-posting/ marketing	-Advocacy & networking - Influence regional policy/Training Services	-offer essential advice & support -Free 1:1 support services	-Business development network; Training; Brokerage services	-BME-led business support organisation -
Access/ Eligibility	-SME=<250 -Trading for 6 months + -Potential client must allocate resources for growth; chargeable	-Located in Northwest England -Owned, operated & controlled by Afro Caribbean origin	-Strict eligibility criteria on lending. Business plan required & business must not be a subsidiary of another organisation	- Owned, operated & controlled by Afro Caribbean origin -Chargeable services -Employees of BACEs	-SMEs/BMEs -Flexible criteria
Innovation	-Cultural Business Investment -Guarantee schemes - Business planning for consolidation & expansion -Fund Raising	-weak in this area -emphasis /service focus on networking & advertisement/PR - Strong on advertisement -Marketing for profit	-Low interest rates (5.5%) loans; Raising finance & business loans; Free programme for London based BACEs to raise debt finance	-Apprenticeships; subsidised training services(brokerage); Free skills analysis	-Strong community presence via links with Local Authority regeneration initiatives & social enterprise
Testimonials & User feedback	-BBV on average see between 40 -60 clients/month -User satisfaction systems in place. Positive feedback	-Weak in this area -No systems in place to monitor satisfaction of users	-Weak in this area -No systems in place to monitor satisfaction of users	- Weak in this area -No systems in place to monitor satisfaction of users	-Fair systems but an area for development; monitoring data unavailable
Gaps/ Unique attributes	-No ethnicity data/monitoring -Scope to enhance marketing & outreach strategy -Policy Initiatives(weak)	- Policy Initiatives(Poor) despite advocating for regional policy changes for members	-Fair initiatives on Environmental policy -Sustainable procurement - Scope to develop and raise awareness on policy dimensions in general	-Economic downturn straining government funding, hence activities affected -Fair policy Initiatives	-Developed best practice approaches & initiatives; -Made significant contributions to the development of BACEs in the local area

Appendix (2) Sample Interview Instruments (Demand, Supply & Intermediary)


(Questions Format: Open Ended) Demand

Respondent Profile			Business Profile	
Bank Name Managers Name				Business Department & Position
Address				Avge. No. Applications processed (in last 12 months)- Start-up or growth applications?
Age Group 20-30 31-40 41-50 51-60 60+		Experience: (No. of yrs in role)		Diversity Training Attended (in last 12 months)
Interview Date		Venue		
Time started		Time Finished		
Questionnaire Code/Serial No.		Method of recording	Notes/Audio Tape/Video/Other	


1	<p>Introduction:</p> <ul style="list-style-type: none"> Brief overview of meeting, key objectives or research/interview and themes to be explored <p>Theme: Relevance of business sector, Qualification, Experience of BACEs and its influence on successful application for finance</p>
	<p>Build-up questions:</p> <ul style="list-style-type: none"> Managers Experience dealing with BACE applications/ Avge. Applications success rates/Any monitoring systems in place on ethnic orientation and/or success rates of applicants (in last 12 months)/ what category of lending is prevalent amongst BACEs – Small firms in general?

	<ul style="list-style-type: none"> ○ Prompts/areas to explore? <ol style="list-style-type: none"> 1. Success rates for EMBs? How is this measured? 2. Generational effects? 3. Size/gender variations? 4. Lending categories prevalence – loans, overdraft, others??
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2	<p>Theme: Bank perspectives/reasons for application failures</p> <ul style="list-style-type: none"> ○ What are the prevailing reasons for BACEs application failures/ Are these reasons peculiar with other ethnic groups/if yes, why?/Can these reasons be attributed to any ‘variation/characteristics ‘ discussed in (1) above? ○ Prompts/areas to explore <ol style="list-style-type: none"> 1. Proposals/business plans 2. Collaterals – insufficiency, alternatives 3. Qualification/experience/business sector 4. Social network
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3.	Theme: Business loan application procedures/policies & practices/perceptions?
	<p>Build-up: Seek managers’ opinion on the decision making processes and the effects of Centralisation approaches to decision making/how he/she relate this to the effect/impact on outcomes?</p> <ul style="list-style-type: none"> • Does the bank have a dedicated team/procedures & policies targeted at small firms/BACEs/SMEs/BMEs? If no, what would the challenges be for BACEs if a blanket procedure/credit policy is applied? How does the Central vs. Local decision making processes impact on result of finance applications? /How much freedom does Managers have in the decision making process with reference to personal relationships/knowledge of the business? / How does the bank measure ‘perceived risk? /reasons behind basis of perceived risk? ○ Prompts/areas to explore <ol style="list-style-type: none"> 1. What are the effects of the application of a ‘blanket’ procedure to marginalised groups/equality implications 2. What are the basis for Manager Discretion (i.e. when/how does a

	<p>manager decide to make local decision instead of referring to central point? Useful to explore the scope for flexibility based on knowledge of the business</p> <ol style="list-style-type: none"> 3. Alternatives for collaterals/how credit scored? 4. Get idea of equity requirements (what is ratio of BACE capital to debt finance/loan sought)?
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
4.	Theme: Knowledge Gaps: with respect to Policies & practices/monitoring/developing partnerships
	<p>Build up: What are the immediate concerns for the banks about the 'lack of/insufficient information' of BACEs</p> <ul style="list-style-type: none"> • What are the alternative 'finance sources/types' available to BACEs/small firms in general? /why are BACEs/small firms accessing these? / • Monitoring: at policy levels, what are the terms for monitoring? /what variables are monitored? • Knowledge gaps: How much knowledge (scale of 1 – 5; 1=low & 5=high) does your bank have of the needs of BACEs? /How does the bank develop the knowledge base of the BACEs? • Developing Relationships: How involved is the bank in Community Development Finance Programmes? /Are there any specialist initiatives targeted at BACEs? How accessible are these? /What particular challenges does the bank face in processing applications from BACE's? <ul style="list-style-type: none"> ○ Prompts/areas to explore <ol style="list-style-type: none"> 1. Find out what alternative finding sources available and how accessible are these to BACEs in particular and EMBs in general 2. Does the bank collect monitoring data (at both policy and operational levels)? If not, how can they make practices responsive to the needs of the BACEs/marginalised groups who may be at a disadvantaged position? 3. How much scope does the processing manager (at local branch) have in using 'discretion'? /how much knowledge exit of the needs of BACEs? 4. How much efforts/incentives/specialist training does processing bank manager have?

(Question Format: Open Ended) Supply


Respondent Profile


Business Profile

Bank Name				Business Department & Position
Managers Name				
Address				Avge. No. Applications processed (in last 12 months)- Start-up or growth applications?
Age Group 20-30 31-40 41-50 51-60 60+		Experience: (No. of yrs in role)		Diversity Training Attended (in last 12 months)
Interview Date		Venue		
Time started		Time Finished		
Questionnaire Code/Serial No.		Method of recording	Notes/Audio Tape/Video/Other	

1.	<p>Introduction:</p> <ul style="list-style-type: none"> Brief overview of meeting, key objectives or research/interview and themes to be explored <p>Theme: Relevance of business sector, Qualification, Experience of BACEs and its influence on successful application for finance</p>
	<p>Build-up questions:</p> <p>Managers Experience dealing with BACE applications/ Avge. Applications success rates/Any monitoring systems in place on ethnic orientation and/or success rates of applicants (in last 12 months)/ what category of lending is prevalent amongst BACEs - Small firms in general?</p> <ul style="list-style-type: none"> Prompts/areas to explore? <p>Success rates for EMBs? How is this measured?/ Generational effects?</p> <p>Size/ gender variations?/ Lending categories prevalence – loans, overdraft, others??</p>

2	<p>Theme: Bank perspectives/reasons for application failures</p> <ul style="list-style-type: none"> ○ What are the prevailing reasons for BACEs application failures/ Are these reasons peculiar with other ethnic groups/if yes, why?/Can these reasons be attributed to any 'variation/characteristics ' discussed in (1) above? ○ Prompts/areas to explore <ol style="list-style-type: none"> 1. Proposals/business plans 2. Collaterals – insufficiency, alternatives 3. Qualification/experience/business sector 4. Social network
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3.	<p>Theme: Business loan application procedures/policies & practices/perceptions?</p>
	<p>Build-up: Seek managers' opinion on the decision making processes and the effects of Centralisation approaches to decision making/how he/she relate this to the effect/impact on outcomes?</p> <ul style="list-style-type: none"> • Does the bank have a dedicated team/procedures & policies targeted at small firms/BACEs/SMEs/BMEs? If no, what would the challenges be for BACEs if a blanket procedure/credit policy is applied? How does the Central vs. Local decision making processes impact on result of finance applications? /How much freedom does Managers have in the decision making process with reference to personal relationships/knowledge of the business? / How does the bank measure 'perceived risk? /reasons behind basis of perceived risk? ○ Prompts/areas to explore <ol style="list-style-type: none"> 5. What are the effects of the application of a 'blanket' procedure to marginalised groups/equality implications 6. What are the basis for Manager Discretion (i.e. when/how does a manager decide to make local decision instead of referring to central point? Useful to explore the scope for flexibility based on knowledge of the business 7. Alternatives for collaterals/how credit scored? 8. Get idea of equity requirements (what is ratio of BACE capital to debt finance/loan sought)?


4.	Theme: Knowledge Gaps: with respect to Policies & practices/monitoring/developing partnerships
	<p>Build up: What are the immediate concerns for the banks about the ‘lack of/insufficient information’ of BACEs</p> <ul style="list-style-type: none"> • What are the alternative ‘finance sources/types’ available to BACEs/small firms in general? /why are BACEs/small firms accessing these? / • Monitoring: at policy levels, what are the terms for monitoring? /what variables are monitored? • Knowledge gaps: How much knowledge (scale of 1 – 5; 1=low & 5=high) does your bank have of the needs of BACEs? /How does the bank develop the knowledge base of the BACEs? • Developing Relationships: How involved is the bank in Community Development Finance Programmes? /Are there any specialist initiatives targeted at BACEs? How accessible are these? /What particular challenges does the bank face in processing applications from BACE’s? <ul style="list-style-type: none"> ○ Prompts/areas to explore <ol style="list-style-type: none"> 5. Find out what alternative finding sources available and how accessible are these to BACEs in particular and EMBs in general 6. Does the bank collect monitoring data (at both policy and operational levels)? If not, how can they make practices responsive to the needs of the BACEs/marginalised groups who may be at a disadvantaged position? 7. How much scope does the processing manager (at local branch) have in using ‘discretion’? /how much knowledge exist of the needs of BACEs? 8. How much efforts/incentives/specialist training does processing bank manager have?

(Question Format: Open Ended - Intermediaries)


Respondent Profile


Business Profile


Respondent Name				Business Department & Position
Address				Domain: Business Support or Policy Development
Age Group 20-30 31-40 41-50 51-60 60+		Experience: (No. of yrs in role)		Ethnicity
Interview Date		Venue		
Time started		Time Finished		
Questionnaire Code/Serial No.		Method of recording	Notes/Audio Tape/Video/Other	

1	<p>Introduction:</p> <ul style="list-style-type: none"> Set context for meeting, research objectives and themes to be explored <p>Theme: Role of Local Enterprise & Support Services/agencies & BACE development and access to services</p>
	<p>Build-up questions:</p> <ul style="list-style-type: none"> In the course of this research, a proportion of BACEs claimed that they were not receiving <u>relevant</u> support from mainstream business support agencies/organisations? Why is this? Do you agree/disagree, please comment. <ul style="list-style-type: none"> Prompts/areas to explore? <p>Success rates for BACE usage of Business Support Services?</p> <p>How is usage measured and monitored by LDA?</p> <p>How much knowledge of BACEs <u>do support agencies</u> have of the specific needs of this group?</p>

2	Theme: significance of third sector organisations (TSOs) meeting needs of BACEs <hr/> <ul style="list-style-type: none"> ○ What are the roles of LDA in complementing the 'resource base' of TSO? ○ One of LDAs research findings (Redefining London's BME-owned Businesses, 03/05) suggest that BME-owned firms face additional barriers & problems relating to adequate access & support from main stream support agencies: <ul style="list-style-type: none"> Why is this and what is LDA doing about this? ○ Prompts/areas to explore <ul style="list-style-type: none"> Are there any policy areas targeted at this problem Is there any monitoring framework to control output of funded support providers Qualification/experience/business sector How significant is Business link for London (BL4L) and how relevant is the realignment of its management of the SBS
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3.	Theme: Gaps in business support for BACEs
	<p>Build-up: The needs of BACEs are largely varying and complex due to the unique characteristics of the group. What are LDAs views of the available support and the low take-up of business support for this group?</p> <ul style="list-style-type: none"> ○ Prompts/areas to explore <ul style="list-style-type: none"> Is there a failure on the part of the business support agencies (BSA) and why is this? <ul style="list-style-type: none"> Are there any known challenges for the BSAs reaching the BACE/marketing gaps? Is there any dedicated investment to meet specialist support provisions? How effective are these? Relevance of the perceptions of the BACEs?

4.	Theme: Effectiveness of specialist/third sector business support organisations – how relevant are they
	<p>Build up: What are the immediate concerns for the LDA about the lack of funding/effectiveness/take-up of the third sector support organisations? There are reported mistrust by BACEs and missing gaps in terms of specialist support services – what measures are being put in place by LDA to revitalise the third sector business support service providers?</p> <ul style="list-style-type: none"> • Some specialist/dedicated business support agencies for BME-owned businesses such as the North London Business Development Agencies and Wandsworth Enterprise Agency (amongst others) have ceased operating mainly due to lack of funding....what is LDAs position about this? • What are the alternative ‘third’ sectors BME-led or focused enterprise organisations e.g. African Caribbean Business Network (ACBN) emergence able to achieve in meeting the needs of BACEs? How effective are these from LDAs strategic views? • Knowledge gaps: How much knowledge (scale of 1 – 5; 1=low & 5=high) does your bank have of the needs of BACEs? /How does the bank develop the knowledge base of the BACEs? <ul style="list-style-type: none"> ○ Prompts/areas to explore <p>Find out about the regime of LDA funding of the third sector business support providers?</p> <p>Does LDA monitor delivery outcomes (at both policy and operational levels)? If not, how can LDA stimulate the effective usage of the third sector support provisions</p>

5.	Theme: Policy intervention for impacting on both the demand and business support agencies
	<p>Build up: BACEs continue to face barriers to business finance, growth and development – access to relevant and needs-led business support is one of the key issues; addressing these issues has naturally being the focus of considerable business/economic policy and service delivery interest for LDA. What further measures are being developed to ‘fill in the gaps’</p> <ul style="list-style-type: none"> • What policy intervention/measure is developed to redress the sectorial factors and

perceptions among BACEs which are mitigates growth and development?

- The BL4L reorganisation and the transfer of the business support contract to the LDA provide an opportunity for improvements to be made. How does LDA see or measure this?
- **Knowledge gaps:** How is LDA looking to address the specific sectorial needs of BACEs – to improve available of specialist support and resources (including policy intervention) on both growth and traditional sectors such as food, catering, hair and beauty, retailing, building and construction, which characterise many BACEs (particularly in the inner-cities and those with low knowledge skill/human capital)
- **Developing Relationships:** What measures are available to redress the gaps between the 'demand' and 'supply' sides?

Appendix 3: INTERVIEW TRANSCRIPTIONS (SELECTED CASES)	
Research Question 1 – Result (Excerpts from interview transcripts)	
BACE-Unique Identifier/Tracker	Does a relevant qualification, experience in the business sector influence access to business finance?
DB-Low Human Capital/High Business Experience/Record	I really don't agree to an extent that having a relevant management degree is relevant..... from experience, I believe you have to have some form of formal education, i.e. to be literate and be able to understand the basics for looking after your business requirements..... The matter of qualification is a bias factor in this matter and I also think it depends on the nature of your business too.
	<u>qualification in my opinion is required in certain businesses, in my area, I feel that the banks have an already made up mind that lending out money to a small business is not profitable and therefore, no matter how much information you seek, the chances are really zero</u>
EW	I could not agree more with this. In fact, I think it's a critical fact or an underlining factor responsible for how BACEs make decisions and go about considering take-up of banking finance as this is a very red-tape process and a 'know-how' is desirable. I also think this is why many BACEs do not 'try' to access bank finance, because of the work entailed, such as business planning and writing a strategy/developing a detailed cash-flow for example.
	On the other hand, some people are very gifted and have natural business acumen. Having said that, accessing bank finance is a formal source and therefore requires a degree of expertise of the bank application procedures – there are no two ways about the fact that the knowledge base of the BACE is very handy.
SD	I think that a relevant management qualification can only improve how you explore finance sources but ultimately, your experience + environment will play a big part in how you obtain finance.....I believe getting a qualification helps your profile in accessing finance. I do not think it is required to make a business successful. I think to a lender, it gives a professional impression of your business and you!
SS	I would generally agree as acquiring a degree requires a level of planning and organisation. Often those with experience / qualifications have been groomed to produce business plans and strategy assimilation. However, those from a non academic background, have no fear, nothing to loose and possibly willing to go the extra mile or over and above the average to prove their business credentials / business planning skills..... I agree if the manager / owner don't have the knowledge it can create a finance gap as s/he understanding or capacity is less. This creates a disadvantage being a small firm requires a high level of knowledge, a die hard resilient spirit and good people skills. All these factors in my view encompass knowledge.

DH	<p>Definitely, relevant qualification is quite relevant and by dealing with my clients, its clear that it's an added value to the way the entrepreneur develops and manage their business, including sourcing for business funds.... well, what the bank manager dealing with the loan application should be doing is evaluating the individual's business proposals and potential against the risks they would have to take rather than attaching value to the degree.</p>
FO/SW	<p>In my case, this was not an issue; the key thing was meeting the criteria to qualify for the small loan. The support agency who recommended me to the Bank had been quite helpful and I was well guided. The business plan detail was more relevant than qualification..... what I can say is that, in some business sectors such as technology, research or even engineering, it may well be applicable as the owner manager must satisfy certain standards in the UK, so this may well be important. But for me, it's really not applicable.</p>
AA/DB/AO	<p>Advanced qualifications are never a major disadvantage when talking to Bank Managers! The experiences of local business loans manager in the inner city within where I offer mentoring and advisory services are largely from the ethnic minority backgrounds; therefore, they have a much better knowledge of the local businesses and the importance to stimulate social enterprises in the local communities. This may not be so in the areas where processing bank loan managers lack the knowledge about BACEs.</p> <p>AA-Well, for me the blame is more leaning towards the banks rather than the BACEs who may be disadvantaged in a number of ways such as communication, low knowledge or skills to develop business plan and having collaterals. In cases where the business loan applicant has a viable business proposal, the prospective landing bank should be providing extra support to nurture the idea, you just never know which of the ideas, no matter how crudely presented can turn out to be a very profitable venture for both the customer and the bank!....</p> <p>AO-Response: I did not feel that an excessive amount of business acumen or qualification was required; the emphasis was more on the affordability and collateral requirements being met. I would agree though that the sector within which I was entering was not that risky. I do agree that if I had not thought through the options I.e. seeking a bank loan rather than business loan, I may have had some challenges. I had also done my background research by speaking with similar business owner in the sector. My knowledge base and research ability definitely counted was useful here without a doubt.</p>

BACE-Unique Identifier	Research Question (3): Result (Excerpts from interview transcripts) Issues around 'perceptions' and its influence on the ability of the BACE owner manager (OM) accessing business finance.
DB/EW SS	<i>Low Human Capital/High business acumen/1st Generation-As you can imagine, my faith in the Bank finance sector is negative... look around in this workshop (DB asks interviewer to walk around and inspect the range of machinery in the workshop - about 6 heavy duty machines - different types and sizes of equipment ; some measuring about 12m long and 5M standing!)yet I was unable to access finance</i>

BACE-Unique Identifier	Research Question (3): Result (Excerpts from interview transcripts) Issues around 'perceptions' and its influence on the ability of the BACE owner manager (OM) accessing business finance.
	<i>I secured these with my own savings and personal loan, some on HP and some on hire! These were the only way I could afford these and honestly, it works out better for the business... ..Business planning skills- As mentioned earlier on, I was unable to afford the high price of the professional service (accountant), so I had to develop this my self and with the help of colleagues... I strongly believe that the particular bank manager I dealt with was not helpful and relied heavily on information sent back from the head office, he could have relied more on the assessment at his office and used his discretion more.....</i>
	<i>Discouraged borrower effect- well, in my own experience, I have had at least two separate attempts and both were not successful, so I really do not trust the bank sources</i>
DH/SS FO/AA/DB	<i>High Human Capital/ qualification, business success, Female, British born- EW- This is a really interesting area. 20 years ago, stereotyping was rife, but in recent times, we've moved on and the society has changed. The Bank Managers are more aware of the needs of these groups (BACEs). But there is still room for improvement. <u>A lot of the banks are loosing out of feasible, profitable clients. Banks such as Halifax and HSBC now have more knowledge of BACEs.</u> I would argue that the challenges are not as bad as it used to be and is more likely to be a perception issue rather than a reality to an extent.</i>
	<i>Business planning is very critical for showing the bank that the business proposal is a viable one, but again, <u>the skills and costs for getting one done properly depends on the knowledge of the business owner</u> and in most cases, paying for a professional service may not be affordable for small businesses generally.</i>
	<i>Discouraged borrower effect- I had noted many people with sound business plans fail, so when I tried to start a business, <u>I did not approach a bank. Being refused would have knocked my confidence</u></i>
	<i>Female/Average Human Capital-I felt no different, we discussed my business account, specifics requirements and I was given assistance with the VAT processes. I was treated as a valued customer.</i>

BACE-Unique Identifier	Research Question (3): Result (Excerpts from interview transcripts) Issues around 'perceptions' and its influence on the ability of the BACE owner manager (OM) accessing business finance.
<i>High Hum Capital/Direct experience with owner managers as accountant</i>	<i>-From my view, I see a sense of injustice to some of the clients largely because of the knowledge gaps. For example, some of the small firms lack expertise in business planning and/or marketing, and yet, they do not invest in buying professional services. My argument then is that, these business owners are quick to blame the alleged discriminations they face in accessing finance, but the reality is that the right sources and information are not obtained, mainly due to the experiences they or other similar partners had. In some cases, these businesses do not even understand how to approach the banks and some do not even try</i>
AO/DH/AA	<i>High HC AO- I've had a positive experience, largely due to the approaches and decisions I made on going for the best finance option for my venture. I think it's for the BACE to take ownership of the process..... (AA) The experience and attitudes of some BACEs rely heavily on the decisions that are made or not made. Perception is in the mind and we have all being a victim, but I believe that over time, things have changed, but some people have remained in the past. This is not just the BACES, the loan processing systems and bank personnel too have blame in this.....</i>
	<i>Racial discrimination is in the mind; therefore the loan processing managers must be professional and open with the BACES to avoid a negative stereotyping. I know what this is suggesting. Again it has to be that some individuals have particular challenges or experiences with one bank, and then do not try anywhere else.</i>

BACE-Unique Identifier	Research Question (4): Effects of the Credit Crunch and BACE adaptability
All	<i>This is another problem! The recession affects every business, and even more the small businesses. The banks do not encourage small businesses to even try and really to be honest, it's about surviving and looking at alternative options to market my products and recycle my finances. For me the biggest issue now is the business rate challenges and having to compete with the bigger businesses in this sector.</i>
DB/EW.... Generally expressed by all respondents	<i>DB-Recently the government suggested that small businesses will get relief and discounts from business rates, but that again is one of the politics of the government, saying something and doing another.</i> <i>The small businesses really are facing higher challenges and really cannot see the benefits of the incentives? (DB shows the interviewer some invoices</i>

BACE-Unique Identifier	Research Question (4): Effects of the Credit Crunch and BACE adaptability
High HC/Female/Positive Experience	<p>over time) these invoices increase over time (last 2 years) at the initial period, you get this discount figure and then the next invoice has an increase that cancels out the initial discount... listen it's a mess! We also constantly have to battle with bailiffs who chase up business rate payment without considering the income/cash flow of the business that is really why some businesses have closed down because of having to deal with the inland revenue departments. The system does not give allowance to periods of economic crisis to encourage the businesses to stay in trade.</p> <p>EW-This is a difficult one! The 'Credit Crunch' not necessarily directly affecting me as I have had a very good year! This may have been so because my businesses have not relied on excessive credit, or business loans. From experience of some of my colleagues, there is a shift in growing there business to survival. Those that had relied heavily on bank finance have suffered from the Credit Crunch and the effect of business failure is creating a 'ripple effect' on other businesses who are even more adverse to bank finance because of the instability of the economy.</p>
consensus	<p>The Governmental changes to the delivery of public sector – budget cuts, eventually affect all sectors of businesses/communities, even the large ones. Here, ethnicity really has little bearing, except of the fact that the level of knowledge of the business owner may play a part on how options and strategies for survival can be planned. The saying that it's the 'survival of the fittest' applies. I however feel that BACEs and small businesses generally require specialist business support and breaks from taxes and business rates to enable these businesses survive. It will be interesting to research into the business failure rates in these times of uncertainties!</p>
AA/FO/DH	<p>Modernising the business model, HR and the possibility of their brand / product. Changing their market base, with other emerging markets. Had I had the finances I would have liked to open a bouquet in one of the BRIC countries – ideally Brazil.</p>
EW/DH/AO	<p>For me, one of my problems is the business rates and tax implications! The government does not offer any assistance to ensure that businesses can survive the Credit Crunch. My business rely on my clients that run small firms, therefore, if they struggle, I also struggle. The Credit Crunch has affected a lot of my colleagues businesses; I'm hanging in there really</p>
EW/AO	<p>Well, one of the saving grace for me is the fact that I have not committed too much to credit facilities, I suppose, this helps my survival, but I have had to down-size though and laid off staff, I only have part time staff, just two. As things get harder and cash flow gets bad, I will have to revert to a sole trader and lay off staff as I will be forced to so this to survive, its been really bad.</p>
DH/SS	<p>There are really no tax breaks or business rate weavers, so the government, particularly this government, are not caring enough. I also think that the business support agencies themselves are struggling to retain their grant funding and folding up how could they advise and support BACEs?</p>

FO	<i>The issue right now is not about accessing additional finance, as many colleagues would agree, but trying to develop my marketing strategy and cash flow. I am considering recycling my cash flow to stay in business, even if the</i>
BACE-Unique Identifier	Research Question (4): Effects of the Credit Crunch and BACE adaptability
	<i>profit margin is minimal, I can still stay afloat. Invest in other areas (venture capital – friends; the investor will be required to give 3 months notice to reclaim capital injection into my business). Marketing strategy – also looking at new products and customer base. <u>But I must say that the Government are not doing anything to assist small businesses as they claim in the press and political rallies.</u></i>
FO	<i>Well it's different for individuals, but from the feedback I get from colleagues, its hard times and more businesses are packing up, you only have to research on the statistics, its scary! I suppose the credit crunch is a plague that has no bounds or respecter of people, it will affect every business sector, but the smaller ones get the most effect.</i>
AA Business support: Provider/High HC	<i>There is a general reluctance on the part of Bank Managers to part with their money... Response: My clients are usually advised to be creative, honest and diligent in tackling the "credit crunch". There are excellent opportunities in the cultural foods and catering business for more BACEs, so seeking alternative markets/sectors sounds like a practical alternative to business closures.</i>
AO/AA/DH	<i>Response: I think this period will pass, as it's a cycle of time, it's not the first time this has come around and people survived. However, many businesses are at a large risk of closure, as I have had to sell off mine as a result of the economic crisis – largely because the customer base continue to shrink and business rates are ever increasing, making the business unsustainable.</i>
	<i>Seeking finance for me at this time is really not an option as I had to fold up, like many other businesses had to. The banks are more stringent and confidence is low....AO- I tried to expand the business initially, again by releasing further equity on my property, but I realised that the economy was still in a bad shape and had to sell the business just before the credit crunch really became so noticeable.</i>
Consensus	<i>AO-Response: It's not just the small firms or the ethnic ones that face difficulties, I think all businesses do face challenges, its just how businesses manage and strategise. From my contact with colleagues and partners still running businesses, what they now do is to look at survival strategies. I don't think many ethnic businesses seek growth, particularly is the sectors in which they operate is fragile</i>

BACE Unique identifier	Research Question (5): Views and experiences of BACE to business support and policy tools and implications for the reported 'finance gaps'
AO	<p><i>I can relate to the possibility that Black business owners do not use business support services sufficiently mainly because there are certain perceptions or lack of specialist support advice available. There is also a possibility that the business support service providers do not advertise their services enough therefore the owner managers are unaware of the opportunities available concerning business support, some may even think they have to pay for these services if unaware that the funding for these facilities are financed from the Government departments.</i></p>
DB	<p><i>The business support agencies have no real impact/powers to change the problems we face. There are some support providers such as the East London Forum for small businesses, business ventures, a not for profit social enterprise, business link.....you name them, I attend series of regular forums and advise session, but the support you get is really temporary, it does not have any lasting effect on the challenges faced. Some of the business support providers simply offer advice as a tick box exercise to secure funding themselves for survival! So my opinion is that the government should be more serious about ensuring that ethnic minority establishments tackle specific issues relevant to these groups.</i></p>
	<p><i>get ethnic minority business representative to run specific support agency and report to the government or those who develop policies</i></p>
	<p><i>... I think policy should look at the ways the banks operate and ensure they can set quotas for providing finance to small businesses..</i></p>
	<p><i>most of the business support agencies are not fully aware of the types of difficulties faced by particular types of business owners and the business types they run. For example, how can an Asian adviser offer support to African service type business? They would not understand the real issues faced? Again, there should be some specific ethnic groups support providers looking at like issues to be able to make this effective.</i></p>
	<p><i>...another challenge for us is the lack of togetherness between African and Caribbean customers and the businesses themselves. The Asian groups particularly have very strong family and business networks which make it easier to raise finance and access bank finance because of the large collateral they can raise as they have an advantage in the property market.</i></p>
	<p><i>Then the government have to create enterprise banks that will target the small business community and this will create confidence and new jobs I think.</i></p>
EW/FO/SS	<p><i>I have mixed feelings about business support as I'm unsure of how useful they are to BACEs. Because I have worked in the public sector, there is a lot of waste in the system and these are not targeted to sectors that need services. The business support providers such as business link have not impacted my business. There is also the question of whether the BACEs are actually accessing the business support services</i></p>
	<p><i>There are just too many different micro support services that lack specialist skills and local knowledge of the smaller firms that actually need the service the most. Support groups must be designed involving the BACEs to service specific needs i.e. creating business mentors; to help BACEs with business planning, monitoring issues around access to finance etc.</i></p>

	<i>I am aware of a number of these business support providers – business angels, business link, business venture advisory services and a number of Local Authority small business grants and support services. But I am convinced that the accessibility to these support services are very poor for two reasons, one is the fact that the BACEs are not aware of them, secondly, the BACEs have no confidence/knowledge of the benefits they offer.</i>
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BACE Unique identifier	Research Question (5): Views and experiences of BACE to business support and policy tools and implications for the reported 'finance gaps'
	<i>EW- ...first the lack of knowledge or awareness of the various support providers and the second to a lesser significance is the lack of confidence from the BACEs points of view as not being able to obtain the appropriate support/advise.</i>
	<i>Ew-The business support provider organisations should be streamlined and nationalised – one point of contact. This will allow closer monitoring and quality control</i>
	<i>Low HC-SD-I'm really not very conversant of the organisations offering business support, but I have a few friends who has mentioned business angels and the business link in the past, but I have a feeling that they have not been that useful anyway.</i>
	<i>Dh-A one strategy fits all to be discouraged, access to support should be customised to meet the needs and challenges of the whole spectrum</i>
	<i>BACEs and EMBs should be funded to provide specialist support, mentoring and practical assistance to these groups..... Banks should also be funding specialist support providers based on regular monitoring and research findings, this can bridge the gaps between the demand and improve customer confidence</i>
	<i>I do not think it's a legislative issue. I think the business supportive system has all the credentials, but possibly requires them to diversify the strategy. This could include on site observations, small business groups courses whereby those from various businesses share their experiences in the presence of those who could offer guidance.</i>
Intermediary	<i>.My clients certainly do not utilise these services well enough, but I question how relevant the advice given meet the needs of Black and Minority groups in the business sectors. I'm afraid; the credible support providers such as Business link for London lack the specialist skills that address the needs of the minority sectors.</i>
	<i>I think, for the fact that the support/advise provided does not meet the needs of the businesses. I also agree that the BACEs may not use support services enough because some do not understand the benefits, in as much they are unable to access finance. I do often refer my clients for business advice and training sessions by some banks, but at least half of those referred do not take this up. I'm not sure why this is. Perhaps you can find out during the course of your research?</i>

Intermediary	<i>One clear reason, that I have been told by some of my clients is the fact that most of the established business support agencies are not knowledgeable of the specific needs of the BACEs, in terms of culture, lack of adequate collateral, qualification and what you refer to Ade as Human Capital</i>
	<i>I also feel that this problem should be equally shared by some of the banks as well. In some cases, the banks do not have adequate knowledge of Black businesses and therefore have a wrong judgement on allowing business finance.</i>
	<i>FO- I think this is about the 'perceptions' we were talking about earlier and the lack of confidence and explorations. There is also a problem of lack of relevant support speciality – meaning the support agencies do not have relevant advise that meet the needs of the ethnic minority businesses, so the word that go around is that the business support agencies were not set up or resourced to service ethnic minority businesses particularly. I really believe that the government should encourage ethnic</i>
BACE Unique identifier	Research Question (5): Views and experiences of BACE to business support and policy tools and implications for the reported 'finance gaps'
	<i>minority businesses to set up and run these support agencies themselves.</i> <i>I think the Pakistani and Indian communities do this very well</i>
	<i>But from the Government points of view, more needs to be done about understanding the specific needs of the specific ethnic groups that face difficulties. I'm also not sure the Government puts in enough resources into this area. In China, community banks exist particularly for small businesses, and these are monitored by the Central Government, this idea can be explored here in the UK.</i>
	<i>As suggested, I think BACE- led business support agencies need to be set up , I also think the Government should monitor banks and rate them on how well they engage and make business finance available to BACEs</i>